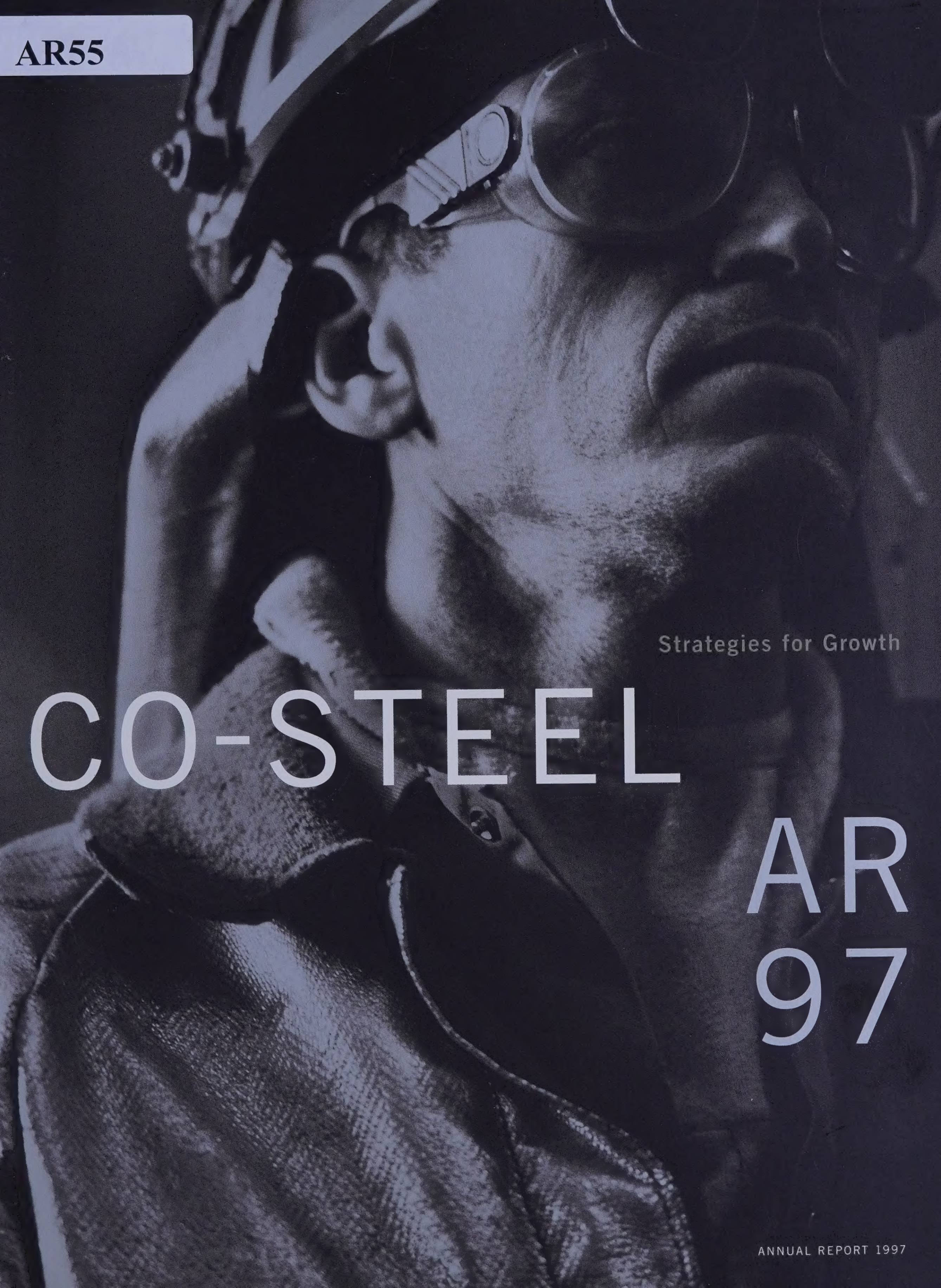

Strategies for Growth

CO-STEEL

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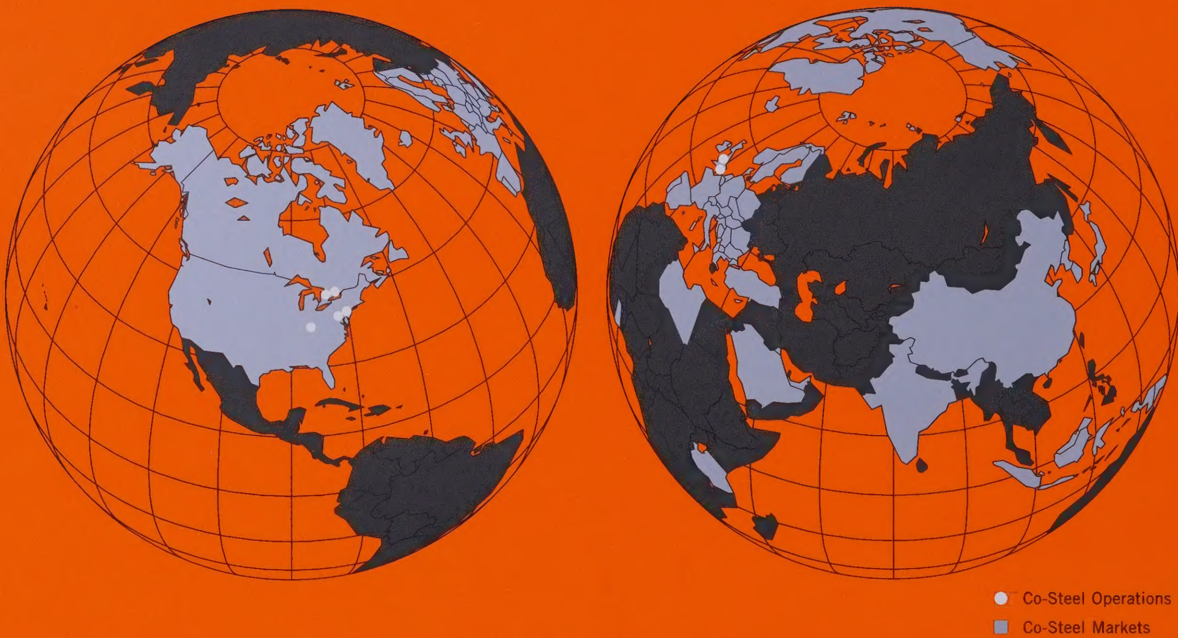
ANNUAL REPORT 1997



Corporate Profile

Co-Steel Inc. is one of the world's largest minimill steel producers and steel scrap processors. The Company has a current annual capacity of 4 million tons of finished steel products and 4 million tons of ferrous and non-ferrous material. Co-Steel manufactures and markets special quality steel bar and rod, reinforcing steel bar and rod, merchant bar, structural shapes and flat rolled steel products used principally in the construction, automotive, appliance, machinery and equipment industries.

Co-Steel's minimill operations consist of Co-Steel Raritan, New Jersey; Co-Steel Sayreville, New Jersey; Co-Steel Lasco, Whitby, Ontario; Co-Steel Sheerness, Kent, England; and Gallatin Steel Company, Gallatin County, Kentucky, Co-Steel's 50%-owned flat rolled steel joint venture.

Co-Steel processes and trades steel scrap for its own use and for sale to third parties through North American-based Co-Steel Recycling and U.K.-based Mayer Parry Recycling Ltd., leading scrap processing and trading companies with ferrous and non-ferrous recovery sites.

Our goal is growth. We will continue to increase Co-Steel's steelmaking and metals recycling capabilities to generate sustained growth, earnings and shareholder value. We will achieve this through strategic capital investment projects that increase capacity, improve productivity, add higher margin products to the mix and enhance service to our customers. We will introduce products that enable us to enter new and attractive market segments. Organic, greenfield and merger and acquisition growth opportunities will play an important role in helping us achieve long-term growth. At the same time, we will build a strong, competitive, independent recycling business through focussed reinvestment and strategic acquisition. Within this sector, we will also develop a profitable non-ferrous recycling enterprise.

Co-Steel at a Glance

	PRODUCTS	KEY STATISTICS
CO-STEEL RARITAN Perth Amboy, New Jersey, USA	• High and low carbon rod for wire rope, fine wire, welding wire and chains, industrial rod for fencing, wire mesh and other industrial applications	• 925,000 ton capacity • Shipments of 844,000 tons • 482 employees
CO-STEEL SAYREVILLE Sayreville, New Jersey, USA	• Full range of rebar sizes including standard and coated rebar, round and square merchant products	• 600,000 ton finished product capacity • 800,000 ton melting capacity • Shipments of 640,000 tons of bars and billets • 314 employees
GALLATIN STEEL COMPANY Gallatin County, Kentucky, USA	• Flat rolled steel for the construction, automotive, appliance, machinery, equipment and packaging industries	• 1.1 million ton capacity • Shipments of 1,010,000 tons • 345 employees
CO-STEEL LASCO Whitby, Ontario, Canada	• Rebar for the construction industry • Structural angles and channels used for construction, fabrication and equipment manufacturing • Round and flat bars and other shapes for manufacturing of various industrial and consumer products	• 900,000 ton capacity • Shipments of 847,000 tons • 564 employees
CO-STEEL SHEERNESS Sheerness, Kent, England	• Rebar and wire rod for the construction industry • Angles and structurals for fabrication and equipment manufacturing • Special quality bar and rod used for automobiles, forging, wire drawing and other industrial and consumer products	• 1 million ton capacity • Shipments of 817,000 tons • 555 employees
CO-STEEL RECYCLING Whitby, Ontario, Canada	• Ferrous and non-ferrous scrap used by Co-Steel Lasco, other steel producers and metal processors	• 1 million ton capacity at nine North American locations • Shipments of 1 million tons • 135 employees
MAYER PARRY RECYCLING LTD. London, England	• Ferrous and non-ferrous scrap used by Co-Steel Sheerness and other steel producers in the U.K., Europe, Turkey, India, the U.S. and the Far East • Non-ferrous materials such as aluminum, zinc and copper are upgraded and sold to metal processors	• 3 million ton capacity at 22 sites in the U.K. and Ireland • Shipments of 1.7 million tons • 451 employees

PERATIONS

ne of the largest wire rod producers in the U.S.
cated on a 93-acre site on New York Harbour, one of the
rgest scrap markets in the world
) miles south of New York City with direct access to water,
il and highway transportation
perates an electric arc furnace, ladle arc refining unit,
continuous caster and a twin-strand, high speed rod mill

argest producer of rebar in the northeastern U.S.
cated on a 116.5 acre site, strategic location provides a significant
eight cost advantage and ensures access to the area's surplus scrap
arket and low cost shredded scrap
perates a highly efficient, consteel furnace, ladle arc furnace,
six-strand continuous caster and a single rolling mill
so operates a state-of-the-art rebar epoxy plant

)%-owned flat rolled steel joint venture with Dofasco
cated on 1,000 acre site on the Ohio River, convenient to
rge, rail and highway transportation and high quality scrap
he plant operates a DC twin shell electric arc furnace, a ladle
c refining unit, a single-strand thin slab caster, a roller hearth
heating and homogenizing furnace, a six-stand high-speed
ndem rolling mill and a coiler

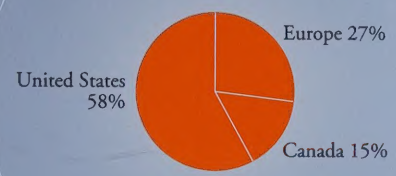
ne of the largest minimills in Canada
cated 35 miles east of Toronto on the north shore of Lake
ntario, the 356-acre site has ready access to water, rail and
ghway transportation as well as scrap
perates an electric arc furnace with a ladle arc refining unit,
continuous caster, a bar mill with continuous cutting and
ishing and a light structural mill

ne of the largest minimills in Europe
cated 40 miles east of London on a 52-acre site with direct
cess to water, rail and highway transportation as well as scrap
perates two electric arc furnaces with ladle arc refining units,
ntinuous casters and bar and rod mills

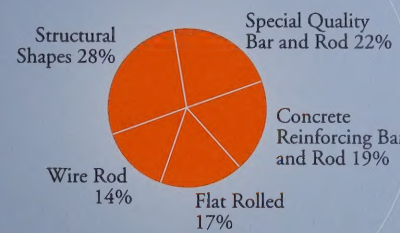
ne of the largest metal recycling operations in Ontario
perates a network of seven Canadian and two U.S. processing
rds located in key scrap generation areas
arious divisions operate shredding, baling, car flattening and
her ferrous and non-ferrous processing operations

% owned by Co-Steel, one of Europe's largest recycling companies
he transport division includes an extensive road fleet and two
ep sea export terminals
so operates non-ferrous processing facilities where materials such as
uminum, zinc, copper are upgraded and sold to metal processors.
he largest secondary aluminum supplier in the U.K. and the
rgest cable granulator in London

1997 Steel Shipments by Geographic Region



1997 Steel Shipments by Product Mix



Total Capitalization

CURRENT ISSUES AND CHALLENGES The following are the major issues we face as we proceed with our strategies for growth. Proactively managing these issues is fundamental to building value over the long term.

Maintaining Financial Strength To fund the acquisition of Co-Steel Sayreville and the substantial capital investments to complete the expansion programs at Co-Steel Lasco and Co-Steel Raritan, we have leveraged our balance sheet beyond our recent levels. Financing these programs will result in long-term debt to capitalization of approximately 40%, which is above our target level of 30%. Although the new level is higher than our target level, it is well within industry norms.

Maximizing our Assets Although Gallatin Steel has made solid improvements and has achieved production levels approaching 100,000 tons per month, the performance of this plant remains a challenge as productivity and cost levels have not yet reached our targets and the market for hot band is very competitive.

We will continue to aggressively manage Gallatin Steel to maximize its earnings potential before we implement phase II expansion.

For the past two years, Co-Steel Sheerness has been handicapped by the strength of the British pound. With the volatility evident in global currency markets over the past year, we are unable to predict when and if sterling will moderate to traditional levels when compared to the mark.

We are taking these challenges seriously, as reflected in our key priorities for 1998.

MARKET OUTLOOK We believe the markets in North America will remain strong in 1998 – with a positive impact on Co-Steel Raritan, Co-Steel Sayreville and Co-Steel Lasco. For Co-Steel Sheerness, the continuing strength of sterling remains a concern but recent price improvements together with anticipated stronger construction activity in the U.K. are encouraging.

The recycling businesses will continue to be strong contributors, particularly the growing non-ferrous business.

KEY PRIORITIES FOR 1998 With good market prospects in North America and our substantial increase in capacity, we believe results of operations will continue to improve in 1998. In this positive environment, we are focusing on three key corporate priorities.

Managing Financial Risk We understand how to use leverage wisely in growing our business while containing financial risk. This is one of our core long-term strategies. Through our expenditure and acquisition programs of the past year we leveraged our balance sheet beyond our target of 30% debt to capitalization. Tight cost and expenditure controls, combined with the strong earnings and cash flow we anticipate over the next several years, will enable us to reduce this position.

Integrating Co-Steel Sayreville To maximize the value of the acquisition of Co-Steel Sayreville, we are focused on expanding and diversifying the facility's product mix to include a broader range of higher value rounds, squares, flats and light structural products to complement Co-Steel Lasco's product range. These products will be sold in the U.S. through Co-Steel Lasco's existing marketing, distribution and transportation channels. The plant recently completed a US$65 million modernization program and operates a 600,000 ton per annum rolling mill and

a new 800,000 ton per annum melt shop with scrap preheating capability. Following the 1998 transition year we expect a significant earnings contribution from Co-Steel Sayreville.

Adjusting to the Currency Impact in the U.K. While we have no control over currency trends, the key priority for Co-Steel Sheerness is to continue to adjust to the market and selling price impact of the strong pound by shifting its focus to domestic British markets and to higher-value end product lines. Investment in the facility will also deliver additional productivity gains.

Operational Gains Gallatin Steel Company will continue to focus on increasing production volumes, improving productivity and reducing costs in 1998. Reduced delays and increased throughputs, increased casting speed and sequence length should enhance yields and contribute to improvements in production costs. Gallatin Steel will continue to shift its market mix to higher margin products such as medium carbon.

BUILDING VALUE Having returned to profitability, we remain focused on achieving further gains at all our operations in 1998. Growth alone will not increase our value. It must be accompanied by profitability. To that end, we will continuously review our operating performance and the investment returns of all our assets.

CONTINUING OUR LONG-TERM STRATEGIES Co-Steel remains focused on pursuing our long-term strategies in the year ahead – improving profitability through technology; growth and diversification; market and customer focus; building the recycling business; and managing financial risk. In the section that follows this letter, we explore these strategies in greater detail.

We believe we have the right strategies, people and assets to achieve our long-term goals and build value for shareholders, and are confident of further progress in 1998.

L C Hutchinson

Lew C. Hutchinson
President and
Chief Executive Officer

R P Fournier

Ronald P. Fournier
Vice Chairman and Deputy
Chief Executive Officer

MAINTAINING TRADITIONS OF LEADERSHIP AT CO-STEEL In June 1997, Lew Hutchinson, who became President of Co-Steel in 1996, after serving as President and Chief Executive Officer of Co-Steel Lasco and Managing Director of Co-Steel Sheerness, was named Chief Executive Officer on the retirement of Bill Shields. Bill joined Co-Steel in 1973 and led the company through a period of dynamic growth and change. During his tenure with the Company he was instrumental in developing the scrap recycling business and tripling the Company's shipments and sales.

Robert Korthals, a director of Co-Steel since 1971, became non-executive Chairman of the Board on Bill's retirement. Ron Fournier, Vice Chairman and Deputy Chief Executive Officer since 1988, will continue to help guide the company until he reaches retirement at the end of 1998.

In other key management changes, Terry Newman, who has served as Vice President, General Manager of Co-Steel Lasco and Co-Steel Recycling was appointed Senior Vice President and Chief Operating Officer, North America and Beth Kidnie, who joined Co-Steel as Controller in 1990, was named Chief Financial Officer on the retirement of Ted Reilly. Ted has served as Chief Financial Officer since 1987.

Growth and Diversification

Growth in shipments is among the best indicators of Co-Steel's ability to meet customer needs. Over the last five years, Co-Steel's sales have increased incrementally, fueled by capacity expansion due to reinvestment and acquisition, product diversification and the growth of the metals recycling operations. To that end, the Company has established a significant leadership presence domestically and internationally. The introduction of new products, such as flat rolled steel, complemented by our active recycling operations, allows the Company to profitably serve a range of industry segments with very specific needs. As Co-Steel's steelmaking and recycling facilities continue to generate strong cash flow, the Company is well positioned to focus on long-term profitable growth opportunities.




LASCO


Market and Customer Focus

Competing effectively means thinking like a customer, not a manufacturer. By building collaborative relationships with our customers, Co-Steel maintains a leadership position in the distinct markets it serves. Although our businesses and geographic locations are diverse, decentralized management teams ensure that each facility is aligned with local market needs – an important competitive advantage. Co-Steel's market and customer focus is anchored by manufacturing, engineering, sales and marketing, and logistical expertise resident within each facility: an approach that promotes accountability and ownership across the organization and unwavering responsiveness to customer needs.


CINCINNATI
MILACRON

Improving Profitability through Technology +

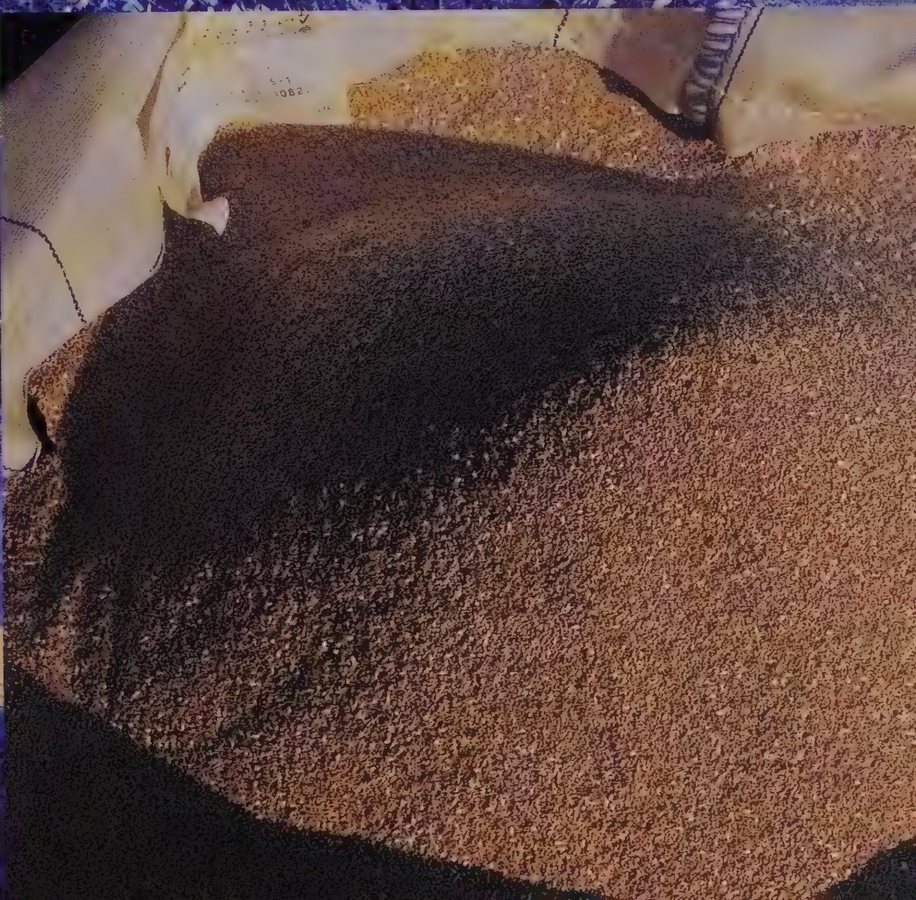
It takes investment and advanced technology to support profitable and growing steelmaking and metals recycling operations. At Co-Steel, capital expenditures across all operations are targeted at improving capacity, increasing productivity and enhancing capability to bring quality, value-added products to customers cost effectively. Through strategic investment programs, Co-Steel equips its plants to compete as the lowest cost, product and customer-focussed leaders in each of the diverse markets they serve. As a result, the Company has achieved a 30 per cent increase in productivity per steelmaking employee and increased shipments 24 per cent to 3 million tons over the last five years.

Building the Recycling Business

Co-Steel's recycling operations – among the largest in the world – provide the Company with an ongoing, solid base of earnings. Notwithstanding that the Co-Steel group of steelmaking companies are the largest customers of the metals recycling operations, this sector yields far more than raw materials for the minimills. It generates a valuable and profitable supply of non-ferrous metals that the global marketplace is increasingly demanding. Ongoing investment in the most advanced sorting and processing technologies ensures that our North American and U.K. recycling businesses recover the highest percentage of ferrous and non-ferrous materials and participate in the vast opportunities for growth within this sector.

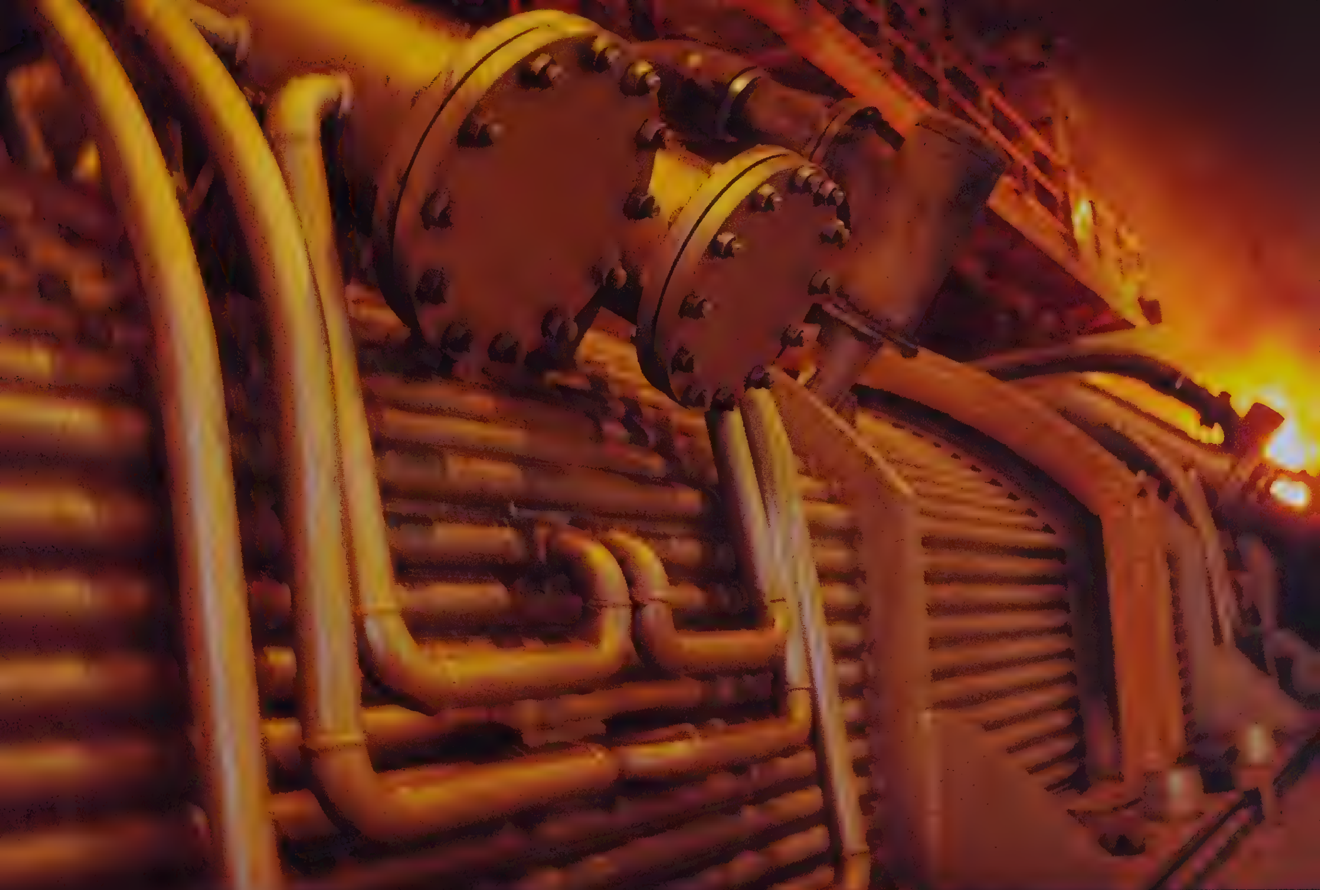






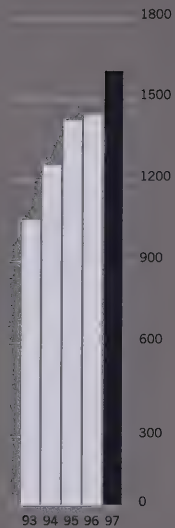
Managing Financial Risk $

Generating growth requires financial strength. A steady, strong cash flow allows the Company to reinvest significant resources to enhance and expand its operations, make important strategic investments, exploit progressive technologies, improve the skills and capabilities of employees and fund regular dividends. Over the years, Co-Steel has employed a disciplined debt to capitalization policy that has helped to protect its net earnings from the cyclical risks of the steel industry. A prudent approach to financial leverage has enabled the Company to seize opportunities to generate future profitable growth and contribute to building the steelmaking and scrap recycling businesses.



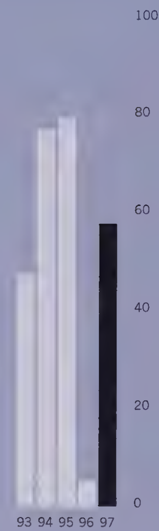
Sales

(millions of dollars)



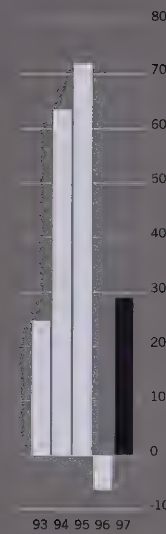
Operating Earnings

(millions of dollars)



Net Earnings

(millions of dollars)

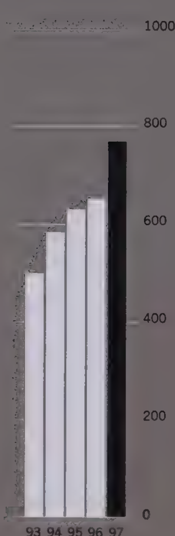


Capital Expenditures

(millions of dollars)

Shareholders' Equity

(millions of dollars)



Shipments

(thousands of tons)

Financial Highlights

	97	96
FINANCIAL RESULTS *(in millions)*		
Sales	$ 1,605.3	$ 1,444.5
EBITDA*	128.2	70.5
Operating earnings	58.2	5.4
Net earnings (loss)	29.1	(6.4)
Cash flow from earnings	97.9	43.0
Capital expenditures	91.8	103.5
FINANCIAL POSITIONS *(in millions)*		
Working capital	$ 232.3	$ 155.7
Long-term debt	241.9	248.4
Shareholders' equity	772.2	654.7
SHARE INFORMATION		
Earnings (loss) per share	$ 0.87	$ (0.21)
Dividends per share	$ 0.40	$ 0.40
Common Shares *(in millions)*		
Outstanding at year end	30.6	30.5
Weighted average	30.6	30.5
OPERATIONS *(thousands of tons)*		
Shipments	3,014	2,803

*Earnings before interest, taxes, depreciation and amortization

Management's Discussion and Analysis

Management's Discussion and Analysis should be read in conjunction with the Consolidated Financial Statements and related notes.

1997 HIGHLIGHTS

Co-Steel returned to profitability as a result of a reduction in losses at Gallatin Steel. The Company also achieved record shipments of 3 million tons and sales of $1.6 billion.

Progress towards the Company's growth objectives of 5 million tons of steel and 5 million tons of scrap was accomplished through the acquisitions of New Jersey Steel Corporation in the U.S. and the Robinson Group in the U.K. together with internal capital expansion programs.

- EBITDA earnings of $128 million were reached.
- Gallatin achieved production of up to 96,000 tons per month.
- Co-Steel raised over $200 million in financing.
- Co-Steel Lasco reached a new three-year labour agreement without interruption to production.

Capital expenditures to increase productivity and broaden Co-Steel's product range totalled $92 million in 1997. Key initiatives that received funding included the:

- continuation of the structural mill project at Co-Steel Lasco,
- installation of new 120 MVA transformers at Co-Steel Lasco and Co-Steel Raritan,
- continuation of the expansion program at Co-Steel Raritan to increase steel-making capacity to approximately 900,000 tons per year and rolling mill capacity to approximately 1.1 million tons per year of finished products, and
- start on a project to replace one of the two casters at Co-Steel Sheerness; this project is scheduled for completion in early 1998.

Accounting Change The Company adopted the new recommendations of the Canadian Institute of Chartered Accountants and now accounts for deferred income taxes by the liability method. The accounting change is outlined in Note 2 to the Consolidated Financial Statements and has been applied retroactively in these statements. This accounting change increases the loss reported in 1996 by $0.1 million and the net earnings reported in 1997 by $1.7 million. The major impact is an increase in retained earnings at January 1, 1996 of $10.3 million. The discussions that follow are based on the restated consolidated financial statements.

FINANCIAL SUMMARY

Consolidated Results In 1997, consolidated sales for Co-Steel's steel-making and recycling operations in North America and the U.K. increased 11% to $1.6 billion. Geographically, 67% of sales originated in North America and 33% in Europe.

Net earnings for 1997 were $29 million, or $0.87 per share versus a loss of $6 million, or ($0.21) per share, in 1996. Last year's loss was the first experienced in Co-Steel's 10 years as a public company and was directly attributable to the poor results at Gallatin Steel. Co-Steel's share of the loss at Gallatin Steel in 1996 totalled $27 million and was included in the 1996 results.

The improved results in 1997 were driven by strong North American demand for steel, improved performance at Gallatin Steel and the positive earnings trend of the recycling operations. However these positive factors were offset to some extent by losses at Co-Steel Sheerness in the U.K.

Despite a reported 30.7% increase in the level of U.S. imports of steel, the North American steel market showed continued strength for all products. Demand was fuelled primarily by non-residential construction, strong automotive and infrastructure spending. The marketplace for flat rolled steel experienced some price erosion in the latter half of the year as a result of the return of capacity and the start-up of new capacity along with strong imports.

Although the European economy improved in the latter half of the year, and steel prices increased, the benefit of these gains was not realized in 1997 due to the continued strength of the British pound sterling. As a result, imports from Continental Europe continued to flood the U.K. market and eroded the profitability of exports.

An analysis of variance from 1996 actual results further highlights the strength of the North American steel markets and the weakness experienced by Co-Steel's European operation.

	$ millions increase (decrease) in Net Earnings
1996 loss	(6)
Gallatin Steel Company	20
Other North American steel operations	
Selling prices	16
Scrap prices	2
Volume	5
U.K. steel operations	
Selling prices	(19)
Scrap prices	4
Change in accounting for taxes	2
Other	5
Increase in net earnings	35
1997 net earnings	29

In 1997, steel shipments increased 7% to a record 3 million tons, surpassing 1996 levels of 2.8 million tons. The change in dollar value of sales was comprised of:

	$ millions increase in Sales
Steel Operations	
Volume	85
Price	13
Recycling operations	29
Currency translation	34
Increase in consolidated sales	161

Manufacturing Costs The Company's steel manufacturing costs are composed of three major components:

- ferrous scrap, the principal raw material in the Company's minimill process
- labour
- energy, particularly electricity

Year ended December 31	97	96
Ferrous scrap	49%	47%
Labour	10%	12%
Energy	8%	9%
Other	33%	32%
Total	100%	100%

The relationship of these components does not vary substantially from year to year.

Scrap Historically there has been a positive correlation between the price for finished steel and the cost of scrap, each reflecting global steel demand as well as local market conditions. Although scrap prices increased towards the end of the year as a result of an increase in electric arc furnace capacity and normal seasonal patterns they were relatively stable throughout 1997.

This is in contrast to 1996 when the anticipation of a significant increase in new electric arc furnace capacity escalated the price of scrap. However, a shift in global supply patterns countered concerns about scrap export as Japan, historically an importer of scrap from the U.S., started to export scrap and pig iron principally to Asia. At the same time, the Commonwealth of Independant States (the former Eastern Bloc) increased exports to Southern Europe. In turn, U.S. exports fell dramatically and East Coast scrap exporters turned to domestic markets. As a result, a major correction in rising scrap prices occurred at the end of 1996.

Whenever scrap prices rise to high levels in a strong steel market, scrap substitutes become attractive supplements in the steel-making process. Direct reduced iron ("DRI"), pig iron, hot briquetted iron and iron carbide can be used as substitute raw materials in electric arc furnaces. Scrap substitutes are free from impurities (or residuals) that are associated with steel scrap and which can reduce the quality of the steel produced. Pig iron, for example, which is used by Co-Steel Raritan, Co-Steel Sheerness and Gallatin Steel, has a higher carbon content enabling production of steel with the use of less energy. The scrap substitute market outside North America has grown rapidly with DRI production reaching 35 million tons in 1997 and several new plants currently are under construction. Based on past experience, the Company expects that scrap substitutes generally will have the effect of moderating scrap steel prices, but will not materially reduce demand for steel scrap.

Currently, scrap substitutes are more expensive than average grades of scrap, but are comparable to higher quality grades of scrap used to produce flat rolled steel and wire rod. Therefore, scrap substitutes could become important sources of supply to Co-Steel Raritan, Gallatin Steel and Co-Steel Sheerness in the future. Gallatin Steel is using scrap substitutes for approximately 15% of its ferrous raw material requirements. Gallatin Steel's location on the Ohio river allows scrap substitutes to be economically transported from producing regions such as Venezuela and the Caribbean.

Labour The Company invests heavily in training. As a result, Co-Steel's highly skilled workforce continues to achieve significant improvements in productivity and product quality. Over the past five years, average shipments per employee per ton improved by 30% to 1,567, excluding Gallatin Steel. At Gallatin Steel tons per employee reached almost 3,000 tons.

Steel-making employees participate in profitability gains through profit sharing plans that are based on the earnings of the individual operation. As of December 31, 1997, Co-Steel had approximately 2,500 employees. Profit sharing amounted to $9.4 million for approximately 2,100 employees.

Approximately 450 hourly employees of Co-Steel Lasco are represented by a union under a collective bargaining agreement which expired on February 27, 1997. In August 1997, a new three-year agreement ending February 27, 2000, was ratified without interruption to production.

The Company has not experienced a strike or work stoppage at Co-Steel Lasco since 1988. The Company's other employees, with the exception of 56 employees at Co-Steel Recycling, are not unionized and management believes that employee relations are good.

Power Co-Steel purchases electricity directly from regulated local electrical utilities under supply arrangements. In the last three years, the cost of electricity has stabilized or declined in some jurisdictions in North America and the U.K.

Ontario Hydro has announced nuclear power plant curtailments but has pursued interconnected power connections to ensure that major Ontario consumers are protected. This may translate into minor increases in average power costs for Co-Steel Lasco. Co-Steel Lasco has not experienced any serious power interruption since the announcements.

Selling, general and administrative Selling, general and administrative expenses represented less than 4% of the Company's operating costs in 1997 and were substantially unchanged from 1996.

Interest Costs Net interest costs of $21 million in 1997 were similar to 1996 levels. A convertible debenture financing in April 1997 resulted in a $2.7 million charge to reinvested earnings and a reduction in earnings per share of $0.09 during 1997. This amount represents the after-tax interest costs for the amount of this financing treated as equity.

OPERATING RESULTS

Steel-making Operations Co-Steel is one of the world's largest minimill steel producers with a capacity during 1997 of 3.4 million tons of finished steel products. Co-Steel manufactures and markets special quality steel bar and rod, reinforcing steel bar and rod, merchant bar, structural shapes and flat rolled steel products used principally in the construction, automotive, appliance, machinery and equipment industries.

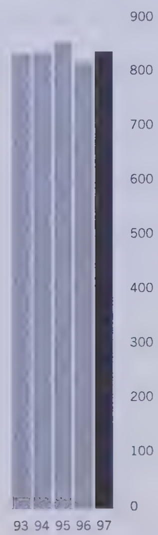
Co-Steel's minimill operations in 1997 consisted of Co-Steel Raritan, New Jersey; Co-Steel Lasco, Whitby, Ontario; Co-Steel Sheerness, Kent, England; and Gallatin Steel Company, Gallatin County, Kentucky, Co-Steel's 50%-owned flat rolled steel joint venture.

United States

CO-STEEL RARITAN

Year ended December 31	97	96
Shipments (000's tons)	844	824
Average selling price (US$/ton)	348	336
Average ferrous scrap cost (US$/ton)	131	132
Sales (US$ millions)	294	277
EBITDA (US$ millions)	29	16
Depreciation (US$ millions)	11	11
Operating earnings (US$ millions)	18	5
Capital expenditure (US$ millions)	27	13
Number of steel-making employees	482	475
Shipments (tons) per steel-making employee	1,751	1,734

Co-Steel Raritan Steel Shipments
(thousands of tons)



Co-Steel Raritan's shipments were up slightly on a year-over-year basis. In both 1996 and 1997, shipments were impacted by unplanned outages. A ladle washout in the casting area in April 1997 resulted in a production loss. In 1996, unusually harsh winter conditions interrupted operations in the first quarter and a transformer failure impacted production in the third quarter.

Selling prices increased on average US$12/ton in 1997, buoyed by strong demand and a pending trade case. Improved selling prices and shipments were the primary factors leading to the improvement in operating earnings from US$5 million in 1996 to US$18 million in 1997. Stable scrap prices resulting from the reduced demand for scrap by export markets also had a positive impact on operating earnings during 1997.

Co-Steel Raritan invested US$27 million in capital spending during 1997. This capital expenditure was focussed on increasing power to the furnace and upgrading the fume extraction system. These capital improvements, which will contribute to increased productivity and reduced emissions, are part of Co-Steel Raritan's program to increase melting capacity from 770,000 tons to 900,000 tons and rod mill capacity from 925,000 tons to 1.1 million tons.

Capital expenditures in 1998 are planned at approximately US$10 million. This spending will concentrate on further expanding capacity and improving productivity.

Co-Steel Raritan anticipates a continued strong market in 1998 as prospects for the construction, welding and staple industry are very positive.

A countervailing duty investigation involving wire rod was terminated by the International Trade Commission (ITC) on November 19, 1997. Co-Steel Raritan is waiting for the written opinion of the Commission to evaluate the Commission's decision. Preliminary anti-dumping duties, which are a separate issue from the countervailing duties, are currently in effect with all the countries being investigated. These duties are being collected and the status will not be affected by the outcome of the November vote.

The ITC vote on the anti-dumping investigation is scheduled for mid-March 1998. Despite the earlier negative vote, Co-Steel Raritan believes the ITC ruling will be favourable.

GALLATIN STEEL COMPANY

Year ended December 31(1)	97	96
Shipments (000's tons)	1,010	852
Average selling price (US$/ton)	319	299
Average ferrous scrap cost (US$/ton)	132	141
Sales (US$ millions)	322	255
EBITDA (US$ millions)	16	(30)
Depreciation (US$ millions)	27	26
Operating loss (US$ millions)	(11)	(56)
Capital expenditure (US$ millions)	26	55
Number of steel-making employees	345	321
Shipments per steel-making employee	2,927	2,654

(1)Amounts represent 100% of Gallatin Steel's results, of which the Company's share is 50%.

Gallatin Steel Company is a 50%-owned flat rolled steel joint venture with our partner Dofasco Inc. This greenfield minimill, located in Kentucky, began production in May 1995 and has experienced a challenging start-up. Equipment problems at the melting and casting stages were largely responsible for a slower rate of progress than anticipated.

During 1997, selling prices for flat-rolled steel were positively impacted by both price increases and improved product mix with sales of secondary product decreasing by approximately 3% during the year. Gallatin Steel made good progress in reducing operating costs, improving revenue per ton and enhancing production as well as increasing shipments. However, these incremental performance improvements were undermined by furnace-related problems in the fourth quarter that significantly impacted volume and costs. This, combined with pressure on selling prices due to higher import levels, and high conversion costs resulted in an operating loss of US$11 million in 1997, compared to a loss of US$56 million a year earlier. Co-Steel's share of the 1997 operating loss is US$5.5 million and US$27 million in 1996.

Average scrap prices declined 6% over 1996 levels as a result of new raw material procurement practices established by Gallatin during the year and some easing in the market.

Gallatin Steel spent US$26 million on capital expenditures in 1997, aimed primarily at product diversification and production efficiency. Capital expenditures, funded from cash flow, for 1998 are planned at US$11 million and will be targeted at ongoing maintenance spending. Co-Steel's share of this 1998 investment is US$5.5 million.

Overall supply and demand in the flat rolled market was strong in 1997 and is expected to remain so in 1998. However, the added capacity of new domestic mills is expected to continue to exert pressure on hot band pricing into 1998. To offset declining prices, Gallatin Steel is focused on leveraging the operational gains and shifting its market mix to higher margin products such as medium carbon.

Gallatin Steel will continue to focus on increasing production volumes, improving productivity and reducing costs in 1998. Reduced delays and increased throughputs, increased casting speed and sequence length should improve yields and contribute to improvements in production costs in 1998. Scrap prices are expected to increase slightly in 1998 due to expanded North American capacity and demand for prime grades of scrap.

Canada

CO-STEEL LASCO

Year ended December 31	97	96
Shipments (000's tons)	847	740
Average selling price ($/ton)	452	438
Average ferrous scrap cost ($/ton)	155	157
Sales ($ millions)	378	324
EBITDA ($ millions)	51	33
Depreciation ($ millions)	15	12
Operating earnings ($ millions)	36	21
Capital expenditure ($ millions)	15	23
Number of steel-making employees	564	563
Shipments per steel-making employee	1,502	1,314

Strong North American market demand for Co-Steel Lasco's products resulted in improved selling prices and record shipments in 1997 of 821,000 tons of finished product and 26,000 tons of billets. The robust market resulted in record levels of order backlogs and low inventories. Over the past year, Co-Steel Lasco focussed on improving customer service by adding three new distribution centres and 250 new Co-Steel Lasco rail cars to ensure on-time delivery of products.

Excellent production performance, high selling prices, stable scrap prices and a weak Canadian dollar contributed to operating earnings of $36 million in 1997 versus $21 million a year ago.

Total capital expenditures in 1997 were $15 million and included the installation of a new 120 MVA transformer to boost furnace output. In 1997 Co-Steel Lasco initiated the final phase of a $120 million structural mill upgrade. In 1998 this will require cash for capital spending of $50 million and $5 million in 1999. This investment will substantially increase product size capability and add more than 300,000 tons of new rolling mill capacity resulting in an increase in capacity to produce and ship 1.1 million tons of finished products as new products are brought onstream over the next 24 months. An additional $2.5 million will be invested to reconfigure the warehouse and enlarge it by 40,000 square feet in preparation for the expanded product range and increased tonnage from the structural mill.

The outlook for Co-Steel Lasco in 1998 is positive. It is anticipated that markets will continue to be strong, although scrap costs will be moderately higher. Fluctuations in the value of the dollar will also influence earnings. The most significant challenge facing Co-Steel Lasco in 1998 is the accelerated completion of the structural mill with minimal interruption.

Co-Steel Lasco Steel Shipments
(thousands of tons)

Europe

CO-STEEL SHEERNESS

Year ended December 31	97	96
Shipments (000's tons)	817	814
Average selling price (£/ton)	167	184
Average ferrous scrap cost (£/ton)	70	77
Sales (£ millions)	141	153
EBITDA (£ millions)	2	8
Depreciation (£ millions)	5	5
Operating (loss) earnings (£ millions)	(3)	3
Capital expenditure (£ millions)	5	5
Number of steel-making employees	555	573
Shipments per steel-making employee	1,472	1,421

Co-Steel Sheerness reported an operating loss of £3 million in 1997, primarily the result of the continued strength of sterling. In 1996, Co-Steel Sheerness recorded operating income of £3 million. Shipments were flat to 1996 levels despite an extended summer shutdown, which included preparation for the replacement of a caster early in 1998. On a year-over-year basis, average selling prices dropped 9% to £167 due to adverse exchange rates. Scrap costs declined 9% in 1997.

Although the European economy improved in the latter half of the year, and steel prices increased, the full benefit of these gains was not realized due to the continued strength of sterling. The appreciation of sterling against other European currencies over the course of 1997 resulted in extremely weak sterling selling prices in Continental Europe and increased steel imports in the U.K.

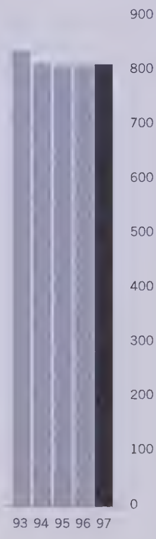
As a response to compressed earnings, Co-Steel Sheerness maintained extremely tight cost controls and introduced major cost cutting initiatives in 1997.

Capital spending was limited to £5 million with investment focused on shifting the product mix to higher grade bar and rod to reduce the reliance on commodity grade products.

Co-Steel Sheerness plans to invest a further £5 million in 1998 in capital expenditures. This will primarily relate to a continuous casting machine to significantly improve product quality.

Co-Steel Sheerness expects higher selling prices in 1998 fueled by increased market penetration for its higher value product mix, investment in a new caster which will strengthen the sales mix and expand the higher quality EU tonnage and finally, improved trading conditions that will generate a higher proportion of U.K. sales. As well, several major infrastructure projects are expected to boost demand for reinforcing product in 1998. Improved market stability and product development should also translate into higher prices for merchant bar and wire rod. A continued weak Southeast Asian market should also bring some relief in the form of lower scrap costs.

Co-Steel Sheerness Steel Shipments
(thousands of tons)



Scrap Recycling Operations Co-Steel is among the most scrap self-sufficient major minimill producers in the world. The Company's long-term strategy is to engage in the procurement, processing and supply of its major raw material ferrous scrap, through large recycling operations in North America and the U.K.

The Company operates Co-Steel Recycling in North America and Mayer Parry Recycling in the U.K. These operations ensure ready access to reliable, cost competitive quality sources of raw material for Co-Steel Lasco and Co-Steel Sheerness. At the same time, these scrap operations generate significant profits from the sale of ferrous and non-ferrous materials to third parties.

The recycling operations are run as separate, profitable businesses. In recent years, recycling has been expanded through expansion of existing yards and acquisitions.

In 1997, Co-Steel's recycling companies supplied 1.8 million tons of ferrous scrap to the steel-making operations and had third party sales of 1.0 million tons or $278 million including non-ferrous material. During 1997, the Company had an annual recycling capacity of 3.0 million tons of ferrous and non-ferrous material. This capacity increases to 4.0 million tons in 1998 as a result of the new investments.

Ferrous Scrap prices declined from 1996 levels due primarily to the weak Asian economy and currency fluctuations. Pricing on prime grades, however, remained strong due to new minimill capacity.

Non-ferrous pricing remained strong until the end in 1997 and provided a steady earnings stream.

Europe

MAYER PARRY RECYCLING (MPR)

Year-ended December 31	97	96
Shipments to Co-Steel companies (000's tons)	882	858
External sales (£ millions)	98	97
EBITDA (£ millions)	9	10
Depreciation (£ millions)	3	3
Operating earnings (£ millions)	6	7
Capital expenditure (£ millions)	3	4
Number of employees	451	452

Shipments of ferrous scrap were flat year-over-year at 1.7 million tons. For 1997, Mayer Parry Recycling reported operating earnings of £6 million, down slightly from £7 million in 1996. Trading conditions during 1997 remained reasonably consistent with 1996 levels with scrap prices being affected by continued difficulties in the European steel market and the strength of sterling against traditionally U.S. dollar based scrap pricing.

Acquisitions form an important part of MPR's growth strategy. In June 1997 MPR announced the purchase of a 30% interest in a new business consisting of the three Irish Republic depots of Hammond Lane Metal Company and the Belfast operations of European Metal Recycling. This investment was completed in late December 1997 and extends MPR's geographic presence to Ireland. The new recycling company, called Hammond Metal Recycling, has 250,000 tons of recycling capacity.

In January 1998, MPR announced the acquisition of a 50% interest in the Robinson Group Ltd., subject to regulatory approval.

The Robinson Group, based in the northeast of England, is one of the largest processors of ferrous and non-ferrous scrap. The operations also include an aluminum smelter and a deep sea export terminal.

MPR and the Robinson Group share complementary market profiles. Both operations are significant suppliers to the U.K. domestic market and exporters of ferrous and non-ferrous raw materials. In addition, both companies have strong shredding and heavy media separation operations.

As a result of these transactions, MPR and its associates annual capacity will increase from 2 million tons of steel scrap and non-ferrous materials to nearly 3 million tons. Furthermore, these investments broaden the Company's presence in the U.K. and Ireland, critical to competing in a market dominated by a few large companies.

In addition to the investments described above, MPR invested £3 million during 1997 on capital expenditures.

Capital and investment spending of approximately £6 million planned for in 1998 will focus on non-ferrous processing activities.

Canada

CO-STEEL RECYCLING

Year ended December 31	97	96
Shipments to Co-Steel companies (000's tons)	965	837
External sales ($ millions)	54	39
EBITDA ($ millions)	9	8
Depreciation ($ millions)	2	2
Operating earnings ($ millions)	7	6
Capital expenditure (millions)	6	8
Number of employees	135	117

In 1997, Co-Steel Recycling reported strong shipments to Co-Steel Lasco and third party markets, while emphasizing cost control and profitable, incremental growth. However, extraordinary industry consolidation, together with new shredder capacity, contributed to intense pressure on margins in 1997, resulting in flat operating earnings.

Co-Steel Recycling continued to focus on developing its level of participation in the non-ferrous market by initiating a number of projects at the Whitby site. It also concentrated on integrating the yards that it had acquired in 1996.

The Company invested $6 million in 1997 primarily on non-ferrous recovery projects. Capital spending of $6 million is planned in 1998 primarily to purchase a previously-leased site.

In 1998, Co-Steel Recycling will focus on increasing the volume of ferrous and non-ferrous products and stabilizing margins.

CORPORATE AND CONSOLIDATED

Liquidity and Capital Resources Improved earnings in 1997 increased cash flow to $98 million, up from $43 million in 1996. In 1997, reduced levels of working capital provided $4 million, compared to 1996 when $32 million was invested in working capital. As a result, cash from operations increased to $102 million, versus $11 million a year earlier, and almost fully funded capital spending of $92 million and the investment in other assets of $14 million.

In February 1997, the Company drew down a new 10-year, 7.29%, US$75 million facility and in April 1997, the Company issued $125 million, 10-year, convertible, unsecured, subordinated debentures carrying a 6.5% coupon and a conversion price of $26.25. Net of expenses, the proceeds from this issue were $121 million. The proceeds from these financings were used to reduce floating rate revolving term debt of US$77 million. The balance of the proceeds have been held in short-term investments during 1997 in anticipation of acquisition and other investment plans early in 1998. Other regularly scheduled repayments of debt amounted to $17 million during 1997.

The payment of $12 million in dividends, together with the above resulted in net cash increasing by $87 million to a net cash position of $36 million by year-end 1997.

The Company also had $157 million of working capital demand bank operating lines, of which $82 million was not utilized, and unutilized revolving term debt facilities of US$160 million at December 31st.

In 1998, cash flow is anticipated to provide for scheduled debt repayments of $24 million, dividends of $12 million and capital programs up to $100 million. In addition, the Company expects that currently arranged facilities of US$160 million will be used to finance the acquisition of New Jersey Steel and part of the Company's $120 million planned capital spending program during the year.

Long-term Liabilities Long-term liabilities totalled $260 million at year end and carried a weighted average interest rate of 6.95%, primarily fixed rate debt. Low interest rates made fixed rate debt an attractive method of long-term financing during the year.

At December 31, 1997, the percentage of long-term debt (excluding the current portion) to total capitalization (excluding non-controlling shareholders' interest) was 27%. This strong financial position provided the Company with the ability to purchase all of the outstanding shares of New Jersey Steel Corporation (now named Co-Steel Sayreville) a highly synergistic investment opportunity, when the shares of its majority shareholder were auctioned in late 1997. The financing of this acquisition in early 1998 together with the other planned capital investment programs of the Company will increase the Company's long-term debt to capitalization ratio to approximately 40%, which is above our 30% objective during 1998. The Company aims to reduce this financial leverage through earnings and cash flow generation and the consistent application of tight cost and cash expenditure controls.

Capital Spending Steel-making is a capital intensive industry that requires significant capital reinvestment. Between 1993 and 1997 the Company made capital investments (excluding Gallatin Steel Company) totalling $279 million. In 1997, Co-Steel invested $92 million to reduce costs, implement new technologies, expand production capacity and product range, improve productivity and maintain compliance with environmental legislation and regulations.

In 1998, capital expenditure programs of up to $120 million are planned, excluding Gallatin Phase II, for the steel-making and recycling operations. This is approximately $31 million higher than forecast depreciation. The steel operations will spend approximately $100 million. The most significant capital program is the completion of the structural mill at Co-Steel Lasco ($50 million). Expenditures at Mayer Parry Recycling and Co-Steel Recycling will be directed to non-ferrous processing activities and the acquisition of ferrous yards. Total 1998 investment and capital expenditures planned by the recycling operations are $20 million. These capital spending plans will be closely monitored throughout 1998 to ensure adequate cash resources are available and to ensure that a prudent level of financial leverage is maintained.

Acquisitions

Steel In November 1997, Co-Steel announced that it had entered into a definitive agreement to acquire New Jersey Steel Corporation. The Company acquired all of the outstanding shares of New Jersey Steel Corporation, located in Sayreville, New Jersey, for US$23.00 per share in cash (approximately US$140 million in total).

The tender offer, which closed on January 8, 1998, together with the refinancing of New Jersey Steel's long-term debt (US$22 million) was financed with cash on hand and bank borrowings of US$150 million under existing credit facilities.

The facility, which now operates under the name Co-Steel Sayreville, is the largest producer of rebar in the northeastern U.S. Co-Steel Sayreville produces a full range of rebar sizes and epoxy coated rebar and is an excellent strategic fit with Co-Steel Lasco. Co-Steel Sayreville's geographic location provides Co-Steel with a strong position in the 6 million ton U.S. rebar market, in which Co-Steel does not currently participate, and provides easy access to important growth markets in New England and the mid-Atlantic states. In 1998, Co-Steel Sayreville will focus on diversifying its product mix from rebar to merchant bar quality products.

New Jersey Steel Corporation had sales of US$189 million and net earnings of US$3.3 million in the fiscal year ended November 30, 1997. Start-up problems related to new facilities completed in September 1996 resulted in abnormally high production costs as well as a sub-optimal product mix during the first three months of their fiscal year. These operational issues have been resolved and the benefits of the modernization program have led to substantially improved operating and financial performance over the last nine months which contributed US$12 million of operating earnings.

The acquisition of New Jersey Steel Corporation will be accounted for by the purchase method. New Jersey Steel's operating results will be included in Co-Steel's financial statements from the date of acquisition.

This transaction will increase the Company's finished product capacity to 4.0 million tons.

Recycling In late December 1997, MPR acquired a 30% interest in Hammond Metal Recycling Limited which has a capacity of 250,000 tons and expands Mayer Parry's presence to Ireland.

In January 1998, MPR announced that it had reached an agreement to acquire a 50% interest in the Robinson Group. This company, based in the northeast of England, is one of the largest processors of ferrous and non-ferrous scrap in the U.K. The operations also include an aluminum smelter and a deep sea export terminal. The Robinson Group has the capacity to produce and trade almost 800,000 tons of ferrous and non-ferrous materials annually.

As a result of these transactions, MPR and associates capacity will increase from 2 million tons of steel scrap and non-ferrous materials to nearly 3 million tons.

These acquisitions will be financed out of MPR existing credit facilities.

Income Tax The Company operates in foreign jurisdictions. This provides two benefits with respect to income taxation levels. Provisions that permit the consolidation of taxable income from subsidiary companies under common control provide a benefit to the Company in the form of improved cash flow. In addition, lower tax rates applied to income earned in jurisdictions outside of Canada have the effect of reducing the Company's overall effective tax rate and expense.

As a result of the start-up of Gallatin Steel, the Company has U.S. tax loss carry-forwards of approximately US$139 million that will reduce future taxable income. For tax purposes, the Company has losses of approximately US$82 million which are in excess of accounting losses due to claims of tax depreciation and other items. These losses expire between 2010 and 2012. The utilization of these losses will result in a deferred tax charge but will not require a cash outlay.

Foreign Currency Exposure Co-Steel uses forward exchange contracts to hedge foreign exchange exposure. The Company has a policy that restricts the short-term net unhedged foreign currency exposure of each operating company to $10 million, or US$8 million or £5 million. Longer-term balance sheet exposures may be hedged by borrowing in the currency of the exposure.

Co-Steel Sheerness and MPR are influenced by exchange volatility of sterling versus various European currencies and the U.S. dollar, while Co-Steel Lasco is affected by fluctuation in the Canadian and U.S. dollar. Net receivables are hedged to minimize short-term swings, although each operation remains vulnerable to competitive market pressures resulting from changes in exchange rates. Neither Co-Steel Raritan nor Gallatin Steel Company have significant foreign currency transactions.

Geographic diversification provides some hedging, but the Company does not attempt to hedge translations of earnings. Balance sheet hedging consists of borrowing in the currency of the asset. For example, the funding of the New Jersey Steel transaction will be mainly from U.S. dollar borrowing.

The Company does not enter into derivative financial instruments for trading purposes.

Dividends Since Co-Steel's initial public offering in the second quarter of 1986, the Company has paid a quarterly cash dividend to its shareholders. A dividend of $0.10 per share was paid to shareholders in each quarter of 1997. Dividends are expected to remain at this level in 1998 but will be subject to such factors as the Company's earnings, financial condition and capital requirements.

RISK AND UNCERTAINTIES

Raw Materials Co-Steel's operating results are intrinsically tied to the cost of steel scrap and scrap substitutes. The market for steel scrap is highly competitive and subject to significant price volatility. Steel scrap prices are typically higher during the winter due to the impact of the weather on collection and supply efforts. Realized selling prices for the Company's end products cannot always be adjusted in the short-term to recover the cost of increases in steel scrap prices. Approximately 40% of all steel products in North America are currently made in electric arc furnaces which utilize steel scrap.

A number of North American steel-making capacity expansions were announced in 1997 that are expected to fuel demand for scrap. A number of additional factors will also contribute to rising scrap prices over the long term. For example, improved yields will reduce home scrap in the mill and customer's plant. The increase in galvanized products will also impact scrap prices. The zinc coating is difficult to remove and makes coated steel less recyclable.

In the opinion of the Company, pressure on scrap price is unlikely to persist indefinitely, as countervailing pressures exist. First, higher scrap prices will suppress some exports and expand domestic supply. The threat of higher scrap prices may dissuade some steel makers from expanding scrap dependent steel production. In addition, the possibility of rising scrap prices has triggered a rush to develop supplies of scrap substitutes. Proposed projects already promise scrap substitute capacity targeted at the U.S. steel market totalling more than 10 million tons by the end of the decade, however not all of these initiatives may materialize. Supply will likely lag behind the demand for fresh scrap. However, as scrap substitutes emerge, they will dampen scrap prices.

Economic Cycles The steel manufacturing business is cyclical and significantly affected by prevailing economic conditions in the major world economies. In particular, Co-Steel's financial performance is sensitive to the strength of the construction industry. While virtually all steel companies face the same general business risks and uncertainties, Co-Steel's operations have access to large markets which are governed by the North American Free Trade Agreement and the European Union. As a result, the Company is not dependent on any single market, economy or customer. In addition, for the past two years, growth in steel demand in North America exceeded overall economic growth due to higher automotive and construction demand and the resurgence of globally competitive basic manufacturing industries. Steel consumption in the U.S., one of the Company's major markets, is significantly higher than it was in the recent peak years of the mid-80s.

Environmental The Company's principal raw material is ferrous scrap and the recycling of this material makes a significant positive contribution to the environment. In addition, as part of an ongoing commitment to environmental improvement, the Company continues to invest in new equipment and processes. Nevertheless, rapidly changing environmental legislation and approval processes requires future expenditures to modify operations and treat waste products. With respect to its operations and real property, the Company believes that it is in material compliance with environmental laws, or is in the process of effecting remedial action that will bring the Company into material compliance.

Based on known existing conditions, and the Company's experience in complying with emerging environmental issues, the Company is of the view that future costs relating to environmental compliance will not have an adverse material effect on its financial position. However, there can be no assurance that unforeseen changes in laws or enforcement policies of relevant governmental bodies, or the discovery of changed conditions on the Company's real property or in its operations, will not result in incurring significant costs.

Impact of the Year 2000 Issue Certain computer programs and microprocessors use two digits rather than four to date the applicable year. Any computer programs that have date sensitive software and microprocessors may recognize a date using "00" as the year 1900 rather than the year 2000. This phenomenon (the "Year 2000 Issue") could cause a disruption of the Company's operations, including the inability to utilize manufacturing equipment and various business systems required for normal business activities.

The Company has established a Year 2000 team to address the Year 2000 Issue. Each of the Company's operating units has established a project team which, together with the Company's head office, are working together on the implementation of the Company's Year 2000 plan.

The plan involves the assessment of potential problems, the review of the state of readiness of key suppliers and customers, the replacement or upgrading of computer software and microprocessors, and the testing of business and manufacturing systems. The target date for establishing compliance of critical systems is December 31, 1998.

The Company is currently engaged in the assessment phase. Communications with suppliers and customers are being initiated. The Company's operating units are working together and with industry and regional user groups to share information on supplier and customer compliance. In addition, test environments are being established and some business software systems have already been determined to be compliant.

The impact and cost of modification or replacement of software or microprocessors cannot be estimated until the assessment phase is completed. Similarly, while the Company has commenced communications with key suppliers and customers to determine the potential vulnerability of the Company to such parties arising from any failure by them to address the Year 2000 issue, there can be no assurance that such parties will address these issues on a timely basis. Accordingly, contingency plans will be developed to address both the potential failure of third parties to deal with the Year 2000 issue and the event that some Company's systems are not Year 2000 compliant on a timely basis.

Competition

North American Markets In North America, Co-Steel Lasco, Co-Steel Raritan and Co-Steel Sayreville compete primarily with other minimills, and to some extent, certain integrated steel producers. Gallatin Steel competes in North America primarily with integrated steel producers and minimills that produce flat rolled steel. During the last 10 years, many integrated North American steel producers have undergone restructurings that have resulted, in some cases, in reduced operating costs and more competitively priced products.

North American steel producers have faced significant competition from foreign producers. Foreign competition is sometimes intense and can adversely affect steel product prices in the United States and Canada and tonnage sold by North American producers. The level of foreign competition is affected by fluctuations in the value of the U.S. and the Canadian dollar against foreign currencies and the overall strength of worldwide markets for steel products. In particular, appreciation in the value of the U.S. and Canadian dollar against foreign currencies could increase competition. Certain foreign steel producers are owned, controlled or subsidized by their respective governments, which may result in production decisions and sales that are influenced to a greater degree by political and economic policy considerations than by prevailing market conditions.

European Markets Within the U.K. and continental Europe, there are many minimill and integrated steel producers that manufacture products similar to those produced by Co-Steel Sheerness. In addition, competitive pressures can be affected by imports and the strength of sterling.

Currency Exchange Rates Geographic diversification is one of Co-Steels' key strategies. Net assets as at December 31, 1997 are distributed 34% in the United States, 33% in Canada and 33% in the U.K. As a result, movements in foreign exchange rates affect the Company in several ways.

Currency fluctuations, particularly the relationship among the U.S. dollar, the Canadian dollar, the British pound sterling and the German mark, affect import competition, domestic and export selling prices and scrap prices. The cumulative effects of these factors are complex and difficult to quantify.

Debt financing of foreign operations is normally denominated in the currency of these operations. Where transactions are denominated in foreign currencies, Co-Steel mitigates its exposure to these foreign currency risks by hedging in the currency of the transaction through foreign exchange contracts.

OUTLOOK

Co-Steel will undertake a number of important operational initiatives in 1998 such as the integration of Co-Steel Sayreville and the associated product diversification. In addition, Co-Steel Lasco will continue work on its structural mill to increase product size capability and add new rolling mill capacity. Co-Steel Sheerness will commission the new 'B' caster. Investments at Co-Steel Raritan will concentrate on the longer-term plan to expand capacity to 1.1 million tons. The recycling operations – Co-Steel Recycling and Mayer Perry Recycling – will continue to expand their ferrous and non-ferrous capabilities.

Shipments are anticipated to reach 4 million tons with U.S. shipments representing 60% of the Company's overall shipments and, with bar and rod products making up 80% of the total product mix.

The recycling operations are expected to reach 4 million tons.

Co-Steel expects the long product markets to remain strong well into 1998, benefiting Co-Steel Lasco, Co-Steel Raritan and Co-Steel Sayreville. Rigorous cost control and sustained operational improvements will continue to be a priority at Gallatin Steel, as this operation strives to improve productivity and profitability. Co-Steel Sheerness will focus on shifting its product mix to higher grade bar and rod and to the domestic U.K. market. However, the continued strength of the U.K. currency will continue to exert pressure on the profitability of this operation.

Consolidation within the North American recycling industry, together with the effect of the Asian economic downturn, will continue to pressure margins at Co-Steel Recycling and Mayer Parry Recycling, respectively, in 1998.

Overall, Co-Steel expects improved profitability in 1998 unless a severe economic downturn occurs.

Management's Report

The accompanying consolidated financial statements have been prepared by management and approved by the Board of Directors of the Company. Management is responsible for the preparation and presentation of these financial statements and all the financial information contained within this annual report within reasonable limits of materiality. The financial statements have been prepared in accordance with generally accepted accounting principles in Canada. In the preparation of these statements, estimates are sometimes necessary because a precise determination of certain assets and liabilities is dependent on future events. Management believes such estimates have been based on careful judgments and have been properly reflected in the accompanying consolidated financial statements. The significant accounting policies which management believes are appropriate for the Company are described in note 1 to the consolidated financial statements. The financial information throughout the text of this annual report is consistent with that in the financial statements.

To assist management in discharging these responsibilities, the Company maintains a system of internal control which is designed to provide reasonable assurance that its assets are safeguarded, that transactions are executed in accordance with management's authorization and that the financial records form a reliable base for the preparation of accurate and timely financial information.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards and applicable laws, and for the maintenance of proper standards of conduct in its activities.

Coopers & Lybrand, Chartered Accountants, are appointed by the shareholders and have audited the consolidated financial statements in accordance with generally accepted auditing standards. Their report outlines the nature of their audit and expresses their opinion on the consolidated financial statements of the Company.

Annually, the Board of Directors appoints an Audit Committee composed of at least three directors who are not members of management. The Audit Committee meets periodically with management and the auditors to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues. It is responsible for reviewing the annual consolidated financial statements and the report of the auditors. The Audit Committee reports the results of such review to the Board and makes recommendations with respect to the appointment of the Company's auditors.

L.C. Hutchinson
President and
Chief Executive Officer

R.P. Fournier
Vice-Chairman and
Deputy Chief Executive Officer

E.G. Reilly
Vice-President,
Chief Financial Officer

February 10, 1998

Auditors' Report

TO THE SHAREHOLDERS OF CO-STEEL INC.

We have audited the consolidated balance sheets of Co-Steel Inc. as at December 31, 1997 and 1996, and the consolidated statements of earnings (loss), reinvested earnings and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1997 and 1996, and the results of its operations and the changes in its financial position for the years then ended in accordance with Canadian generally accepted accounting principles.

Coopers & Lybrand

Chartered Accountants
Toronto, Ontario

January 30, 1998

Consolidated Statements of Earnings (Loss)

For the years ended December 31 (in thousands except share amounts)	97	96 (as restated – see note 2)
Sales	$ 1,605,332	$ 1,444,504
Costs of sales excluding depreciation and amortization	1,421,701	1,320,441
Depreciation and amortization	70,029	65,101
Selling, general and administrative expense	55,427	53,586
	1,547,157	1,439,128
Operating earnings	58,175	5,376
Interest on long-term debt	21,740	15,406
Other interest expense	3,940	8,308
Interest and dividend income	(4,441)	(2,103)
	21,239	21,611
Earnings (loss) before income taxes	36,936	(16,235)
Income taxes (notes 2 and 14)	5,540	(11,884)
	31,396	(4,351)
Non-controlling shareholders' interest	2,247	2,086
Net earnings (loss)	$ 29,149	$ (6,437)
Earnings (loss) per share (notes 10 and 12(d))	$ 0.87	$ (0.21)
Cash dividends per common share	$ 0.40	$ 0.40
Weighted average number of shares outstanding	30,555,933	30,488,355

Consolidated Statements of Reinvested Earnings

For the years ended December 31 (in thousands)	97	96 (as restated – see note 2)
Balance – Beginning of year as previously reported	$ 336,742	$ 355,273
Cumulative adjustment due to change in accounting standard (note 2)	10,245	10,346
Balance – Beginning of year as restated	346,987	365,619
Net earnings (loss)	29,149	(6,437)
Interest on equity component of convertible debentures (net of applicable income taxes of $1,336) (note 10)	(2,693)	–
Dividends	(12,223)	(12,195)
Balance – End of year	$ 361,220	$ 346,987

Consolidated Balance Sheets

As at December 31 (in thousands)	97	96 (as restated – see note 2)
Assets		
Current assets		
Cash and short-term investments	$ 111,768	$ 9,940
Accounts receivable, net of allowance for doubtful accounts of $16,762 (1996 – $15,507)	232,560	214,287
Inventories (note 3)	249,651	223,260
	593,979	447,487
Property, plant and equipment (note 4)	757,094	711,728
Other assets (note 5)	107,585	96,857
	$ 1,458,658	$ 1,256,072
Liabilities		
Current liabilities		
Bank indebtedness (note 7)	$ 75,345	$ 60,426
Accounts payable and accrued liabilities (note 8)	261,458	213,847
Current portion of long-term liabilities (notes 9 and 10)	24,882	17,537
	361,685	291,810
Long-term debt (notes 9 and 18)	241,890	248,447
Convertible debenture liability (note 10)	24,442	–
Deferred income taxes (notes 2 and 14)	43,695	47,632
Non-controlling shareholders' interest	14,785	13,514
	$ 686,497	$ 601,403
Shareholders' Equity		
Capital stock (note 12)	$ 269,478	$ 268,889
Convertible debentures (note 10)	93,822	–
Reinvested earnings	361,220	346,987
Foreign currency translation adjustments (note 13)	47,641	38,793
	772,161	654,669
	$ 1,458,658	$ 1,256,072

Signed on behalf of the Board of Directors

K.W. Harrigan

L.C. Hutchinson

Consolidated Statements of Changes in Financial Position

For the years ended December 31 (in thousands)	97	96 (as restated – see note 2)
Operations		
Earnings		
Net earnings (loss)	$ 29,149	$ (6,437)
Items not affecting cash		
Depreciation and amortization	70,029	65,101
Deferred income taxes	(3,558)	(17,692)
Non-controlling shareholders' interest	2,247	2,086
	97,867	43,058
Cash (used for) provided from working capital		
Accounts receivable	(14,962)	(11,155)
Inventories	(22,397)	7,837
Accounts payable and accrued liabilities	41,170	(29,179)
Cash provided from operations	101,678	10,561
Financing		
Additions to long-term debt	107,670	50,176
Repayment of long-term debt	(126,385)	(11,145)
Issue of convertible debentures (note 10)	121,188	–
Issue of shares (note 12(b))	589	1,619
Dividends	(12,223)	(12,195)
Cash provided from financing	90,839	28,455
Investments		
Additions to property, plant and equipment	(91,789)	(103,530)
Long-term investments	–	(8,933)
Additions to other assets	(13,819)	(2,358)
Cash used for investments	(105,608)	(114,821)
Increase (decrease) in net cash	86,909	(75,805)
Net cash – Beginning of year	(50,486)	25,319
Net cash – End of year	$ 36,423	$ (50,486)
Represented by:		
Cash and short-term investments	$ 111,768	$ 9,940
Bank indebtedness	(75,345)	(60,426)
	$ 36,423	$ (50,486)
Supplemental disclosure of cash flow information		
Cash paid for interest	$ 19,824	$ 22,431
Cash paid for income taxes	$ 1,310	$ 18,741

Notes to the Consolidated Financial Statements

For the years ended December 31, 1997 and 1996

Co-Steel Inc. is a minimill steel producer and a steel scrap processor with operations in Canada, the United States and the United Kingdom. The Company manufactures special quality steel bar and rod, concrete reinforcing bar and rod, merchant bar, structural shapes and flat rolled steel for a large number of customers in many steel markets, including the construction, automotive, appliance and machinery and equipment industries. Co-Steel also processes and trades steel scrap, the principal raw material in the minimill process, for its own use and for sale to third parties.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements are prepared by management in accordance with accounting principles generally accepted in Canada. All amounts are reported in Canadian dollars unless otherwise indicated.

a. Consolidation These consolidated financial statements include the accounts of the Company and its subsidiaries and its pro rata share of the accounts of its joint venture.

b. Inventories Inventories are valued at the lower of average cost and net realizable value.

c. Property, plant and equipment Property, plant and equipment are recorded at cost. Interest incurred in connection with construction of major new facilities is capitalized.

Depreciation is provided for buildings, machinery and equipment so as to amortize their cost on a straight-line basis principally over a period of 15 to 20 years. No depreciation is provided on assets under construction.

d. Goodwill Goodwill, which arose from the acquisition of subsidiary companies, is amortized principally over 40 years on a straight-line basis due to the long-lived nature of the Company's business.

The Company determines any impairment in value primarily on the ability to recover the balance of the goodwill from expected future operating cash flows on an undiscounted basis. Any permanent impairment in the value of goodwill would be written off against earnings.

e. Foreign currency translation Monetary foreign currency amounts and the financial statements of foreign subsidiaries are translated into Canadian dollars on the following basis:

- Assets and liabilities at the year-end rate of exchange;
- Revenue and expenses at the weighted average exchange rates for the year;
- Long-term investments at historical rates of exchange.

Unrealized exchange gains and losses arising from the translation of the Company's net investment in self-sustaining foreign operations and from the translation of monetary items which hedge net investments in foreign operations are accumulated in the foreign currency translation adjustment account in shareholders' equity (note 13). Other exchange gains and losses are included in earnings for the year.

f. Deferred income taxes Deferred income taxes arise from temporary differences between the book value of assets and liabilities and their respective tax value. The principal temporary differences are in respect of property, plant and equipment (notes 2 and 14).

g. Pensions and Post-Retirement Benefits The cost of pension benefits related to employees' current service is determined and charged to earnings annually. The cost is computed on an actuarial basis using the projected benefit method and management's estimates for investment yields, salary escalation and other factors. Adjustments resulting from benefit amendments, experience gains and losses, changes in assumptions and plan surpluses or deficits are amortized over the expected average remaining service life of active employees.

The Company contributes to the pension plans in accordance with regulatory requirements based on the latest actuarial valuations of the plans. The cumulative difference between amounts expensed and the Company's funding contributions is included in the balance sheet with other assets.

In Canada, and in certain operations in the United States, the Company provides post-retirement benefits such as supplemental health care and life insurance. Expected costs of these benefits are charged to earnings over the working lives of the employees.

h. Use of Estimates The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. CHANGE IN ACCOUNTING STANDARD

In accordance with new recommendations of the Canadian Institute of Chartered Accountants, the Company now accounts for income taxes by the liability method. Previously, the Company used the deferral method to account for income taxes. This change in accounting policy has been applied on a retroactive basis. Accordingly, the 1996 net earnings have been restated to account for the effect of using the liability method. Other prior periods have not been restated. The 1996 loss reported has been increased by $0.1 million and reinvested earnings at January 1, 1996, has been increased by $10.3 million. The current year impact of this change is to increase net earnings by $1.7 million.

3. INVENTORIES

(in thousands)	97	96
Ferrous scrap	$ 54,472	$ 49,326
Billets	72,347	58,705
Finished goods	69,716	67,229
Plant supplies	53,116	48,000
	$ 249,651	$ 223,260

4. PROPERTY, PLANT AND EQUIPMENT

(in thousands)	97	96
Cost		
Land	$ 42,497	$ 42,223
Buildings	128,431	116,321
Machinery and equipment	1,132,639	1,048,380
Construction-in-progress	43,657	37,382
	1,347,224	1,244,306
Accumulated Depreciation		
Buildings	59,012	55,068
Machinery and equipment	531,118	477,510
	590,130	532,578
Net Book Value	$ 757,094	$ 711,728

5. OTHER ASSETS

(in thousands)	97	96
Goodwill	$ 64,062	$ 65,048
Deferred pension costs	37,673	31,809
Equity investment	5,850	–
	$ 107,585	$ 96,857

Goodwill is net of accumulated amortization of $19,362,000 (1996 – $17,244,000).

The equity investment represents a 30% interest in Hammond Metal Recycling Limited, a U.K. company.

6. JOINT VENTURE PARTNERSHIP

The Company owns 50% of Gallatin Steel Company, a joint venture partnership with Dofasco Inc. Gallatin is a minimill in Kentucky specializing in the production of flat rolled steel.

Summarized below is the Company's 50% proportionate share of Gallatin included in the Company's accounts. As Gallatin Steel Company is a partnership, these accounts do not include a provision for income taxes since taxes are imposed upon the partners.

(in thousands)	97	96
Balance Sheet		
Current assets	$ 53,473	$ 41,550
Property, plant and equipment*		
Land	8,606	8,248
Buildings	21,371	20,903
Machinery and equipment	240,477	232,232
Construction-in-progress	4,275	9,732
Current liabilities	61,893	55,928
Long-term debt	5,210	5,028
Statement of Earnings		
Sales	$ 222,437	$ 173,692
Operating loss	(7,789)	(37,704)
Loss before taxes	(9,737)	(40,225)
Changes in Financial Position		
Cash provided from (used in)		
Operating activities	$ 6,843	$ (29,192)
Investing activities	(17,745)	(37,467)
Financing activities	71	(124)
Proportionate share of decrease in cash	$ (10,831)	$ (66,783)

*Net of accumulated depreciation of $38.3 million in 1997 (1996 – $17.4 million).

7. BANK INDEBTEDNESS

The weighted average interest rate on bank indebtedness at December 31, 1997, was 7.6% (1996 – 6.4%).

The unused lines of credit outstanding at December 31, 1997, for short-term financing are $82 million (1996 – $94 million).

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

(in thousands)	97	96
Trade accounts payable	$ 142,801	$ 114,044
Other payables and accruals	81,476	69,592
Contractors retainage and payables	16,910	13,557
Income taxes payable	6,953	4,533
Post-retirement benefits other than pensions	13,318	12,121
	$ 261,458	$ 213,847

9. LONG-TERM DEBT

(in thousands)	97	96
Term Loans		
Fixed rate reducing term loans		
US$90 million (1996 – US$100 million)	$ 128,619	$ 136,960
US$75 million (1996 – nil)	107,182	–
Floating rate loans (see note 18)		
US$77 million revolving term loans, repaid in 1997	–	105,459
£5.9 million (1996 – £7.2 million) revolving reducing term loans due in varying amounts between 1997 and 2000	13,877	16,924
Other Loans	11,037	6,641
	260,715	265,984
Less: Current portion	18,825	17,537
	$ 241,890	$ 248,447

a. Interest on the 10-year US$90 million term facility loan is payable semi-annually at a rate of 6.77%. Principal repayments are in eight instalments: US$10 million in each of the years 1998 to 2000 and US$15 million in each of the years 2001 to 2004.

b. Interest on the 10-year US$75 million term facility loan is payable quarterly at a rate of 7.29%. Principal repayments are in six instalments; US$12.5 million in each of the years 2001 to 2006.

c. An interest rate swap agreement has been entered into which fixes the rate on £5.0 million of floating rate loans at 7.16% until the date of maturity.

d. Based on rates existing at December 31, 1997, the weighted average interest rate on long-term debt is 6.95% (1996 – 6.59%).

Repayments of long-term debt at December 31, 1997, are as follows:

(in thousands)	
1998	$ 18,825
1999	18,192
2000	17,825
2001	45,450
2002	41,796
Thereafter	118,627
	$ 260,715

10. CONVERTIBLE DEBENTURES

(in thousands)

Current liability component		6,057
Long-term liability component		24,442
Equity component		93,822
	$	124,321

On April 23, 1997, the Company issued unsecured subordinated convertible debentures in the aggregate principal amount of $125 million. After deducting issue costs of $3.8 million, the proceeds of the issue amounted to $121.2 million. The debentures bear interest at 6.5% per annum, mature on April 30, 2007, and, at the holders' option, are convertible into Common shares of the Company at a conversion price of $26.25 per share. The debentures are redeemable after April 30, 2002, at the option of Co-Steel at par plus accrued interest. The Company has the right to settle the principal amount by the issuance of Common shares.

In accordance with the accounting requirements for convertible debentures which can be redeemed by the Company by the issuance of Common shares, the debenture obligations were classified partly as a liability and partly as shareholders' equity. The allocation at issuance was as follows:

(in thousands)

Issue price	$	125,000
Less: Liability component		(33,409)
Shareholders' equity component		91,591
Less: Issue costs applicable to shareholders' equity component net of related income taxes		(1,798)
Net amount classified as shareholders' equity at issuance	$	89,793

The liability component was calculated as the present value of the required interest payments discounted (for the period to April 30, 2002) at an interest rate approximating that which would have been applicable to non-convertible subordinate debt at the time the debentures were issued.

Interest on the liability component has been included in the computation of earnings for the period. Interest on the shareholders' equity component, net of related income taxes, has been charged to retained earnings, and was deducted from the net earnings in calculating basic earnings per share.

11. FINANCIAL INSTRUMENTS

a. The Company has only limited involvement with derivative instruments and does not use them for speculation purposes. They are used to manage well-defined foreign exchange and interest rate risks arising out of the normal course of business.

The Company enters into forward foreign exchange contracts and put options to hedge accounts receivable and future revenues denominated in U.S. dollars, and various European currencies.

At December 31, 1997, the Company had forward foreign exchange contracts to exchange U.S. dollars and various European currencies in the amount of $60 million (1996 – $36 million). The market value of such forward foreign exchange contracts was such that if these contracts had been closed out at December 31, 1997, the Company would have recorded a gain of $0.3 million (1996 – $1.5 million). Unrealized gains and losses on outstanding forward foreign exchange contracts are recorded in the financial statements for accounts receivable and not recorded in the financial statements for hedges against future foreign currency revenue.

In addition at December 31, 1997 the Company had US$23 million (1996 – nil) in put options it had sold at an average exchange rate of 1.391. If these options had been closed out at December 31, 1997 the market value exchange rate would have been 1.425, or a loss of US$0.5 million (1996 – nil). As the Company will utilize future U.S. dollar revenue to settle these options no loss is required to be recorded at December 31,1997.

The Company does not anticipate any material adverse affect on its financial position resulting from its involvement in these types of contracts, nor does it anticipate nonperformance by counter parties.

b. The fair value of the fixed rate long-term debt at December 31, 1997, is $250.9 million (1996 – $144.1 million) at the rate of 6.73% (1996 – 7.18%) which is the rate that would be available for debt with similar terms and remaining maturity.

The Company's estimate of the fair value of the other financial instruments, which includes receivables, payables and convertible debentures, approximates their carrying value.

12. CAPITAL STOCK

a. Capital stock consists of the following shares:

	Authorized Number	Issued Number	(000s)
December 31, 1997			
Common	Unlimited	30,572,760	$ 269,478
Preferred	Unlimited		
		30,572,760	$ 269,478
December 31, 1996			
Common	Unlimited	30,537,914	$ 268,889
Preferred	Unlimited	–	–
		30,537,914	$ 268,889

b. During the year 34,846 (1996 – 111,037) Common Shares were issued for cash consideration of $588,526 (1996 – $1,618,766) under the stock option plan.

c. A summary of all share purchase options is as follows:

	Number of Shares	Aggregate Option Price (000s)
Balance – December 31, 1995	1,455,620	$ 28,650
Granted during the year	857,200	20,355
Exercised during the year	(111,037)	(1,618)
Cancelled during the year	(22,810)	(320)
Balance – December 31, 1996	2,178,973	$ 47,067
Granted during the year	285,750	5,572
Exercised during the year	(34,846)	(589)
Cancelled during the year	(12,000)	(284)
Balance – December 31, 1997	2,417,877	$ 51,766

The options outstanding have been granted under a key employee stock option plan at market price at date of grant ranging from $15.125 to $30.625 and expire on various dates beginning January 1, 1998, and ending on December 11, 2007. The options have a term of up to 10 years and are exercisable in instalments. At December 31, 1997, options to purchase 768,167 Common Shares are not yet exercisable.

d. Fully diluted earnings (loss) per share is $0.83 (1996 – $(0.21)). Imputed after-tax earnings of $1.1 million (1996 – $1.3 million) on the proceeds from the exercise of the options were calculated using a pre-tax rate of return of 3.3% (1996 – 4.2%).

13. FOREIGN CURRENCY TRANSLATION ADJUSTMENTS

Transactions reflected in the statement of changes in financial position have been translated at the rates of exchange in effect when the related transactions took place. They do not reflect the changes in the balance sheet accounts which arise from changes in exchange rates during the year. Significant foreign exchange adjustments had the effect of increasing (decreasing) the carrying value of assets and liabilities during the periods noted as follows:

(in millions)	97	96
Assets		
Non-cash working capital	$ 0.9	$ 9.7
Property, plant and equipment	18.4	16.0
Goodwill and other	(0.1)	7.9
	$ 19.2	$ 33.6
Liabilities		
Long-term debt	$ 10.5	$ 2.2
Deferred taxes	(0.3)	1.1
Non-controlling shareholders' interest	0.2	1.7
	$ 10.4	$ 5.0
Change in foreign currency translation adjustments	$ 8.8	$ 28.6

14. INCOME TAXES

The effective income tax rate on earnings is influenced from year to year by the geographic mix of the consolidated earnings, as well as various tax incentives introduced by governments from time to time to encourage investment.

The following table reconciles income taxes calculated at a combined Canadian federal/provincial tax rate with the income tax provision.

(in thousands)	97	96 (as restated – see note 2)
Earnings (loss) before provision for income taxes	$ 36,936	$ (16,235)
Income taxes at Canadian statutory rates of 44.62%	16,480	(7,244)
Increased (decreased) by the tax effect of:		
Foreign earnings taxed at lower rates	(9,784)	(5,579)
Canadian manufacturing and processing credit	(1,391)	(542)
Other	235	1,481
Total income tax provision (recovery)	$ 5,540	$ (11,884)

Income tax expense (recovery) by jurisdiction is as follows:

(in thousands)	97	96 (as restated – see note 2)
Earnings (loss) before income taxes and non-controlling shareholders' interest		
Canada	$ 20,521	$ 3,220
Foreign	16,415	(19,455)
	$ 36,936	$ (16,235)
Current income taxes		
Canada	$ 7,525	$ 545
Foreign	1,573	5,263
	$ 9,098	$ 5,808
Deferred income taxes		
Canada	$ 307	$ 1,160
Foreign	(3,865)	(18,852)
	$ (3,558)	$ (17,692)
Income tax provision (recovery)	$ 5,540	$ (11,884)

Components of deferred income taxes are summarized as follows:

(in thousands)	97	96
Liabilities		
Depreciation	$ 80,836	$ 104,533
Other	21,115	20,163
Gross deferred tax liabilities	$ 101,951	$ 124,696
Current Assets		
Allowance for doubtful accounts	$ 2,484	$ 2,287
Other expenses not currently deductible for tax purposes	12,176	12,135
Gross current deferred tax assets	$ 14,660	$ 14,422
Non Current Assets		
Operating loss carryforwards	$ 33,985	$ 54,318
Recycling credits	4,157	4,005
AMT credits	2,380	1,848
Other	3,074	2,471
Gross non-current deferred tax assets	$ 43,596	$ 62,642
Total gross deferred tax assets	58,256	77,064

The U.S. operations have losses for tax purposes of approximately US$82 million (1996 – US$52 million) which are in excess of accounting losses due to claims of tax depreciation and other items. The full accounting losses have been tax effected. These losses expire from 2010 to 2012 and arose from the start-up of operations at Gallatin Steel.

15. CONTINGENCIES

The Company's principal raw material is ferrous scrap and the recycling of this material makes a significant positive contribution to the environment. In addition, as part of an ongoing commitment to environmental improvement, the Company continues to invest in new equipment and processes. Nevertheless, rapidly changing environmental legislation and approval processes will require future expenditures to modify operations and treat waste products. The Company believes, with respect to both its operations and real property, that it is in material compliance with environmental laws or is in the process of effecting remedial actions that will bring the Company into material compliance. Based on known existing conditions and the Company's experience in complying with emerging environmental issues, the Company is of the view that future costs relating to environmental compliance will not have a material adverse effect on its financial position. However there can be no assurance that unforeseen changes in the laws or enforcement policies of relevant governmental bodies, or the discovery of changed conditions on the Company's real property or in its operations, will not result in the incurrence of significant costs.

16. PENSIONS AND POST-RETIREMENT BENEFITS

Pension Plans The Company sponsors several defined benefit pension plans for the majority of its Canadian and U.K. employees (the "Plans") and certain employees in the U.S. The Plans provide benefits based on years of service and earnings. The assets of the Plans are held separately from those of the Company. The Company funds the benefit obligations based on actuarial valuations. The assets of the U.K. Plans are primarily U.K. and international equities and bonds. The assets of the Canadian Plans are primarily Canadian short-term notes, bonds and debentures and equities and international equities. The U.S. Plan is not funded.

(in thousands)	97	96
Defined Benefit Pension Cost		
Current service costs	$ 5,906	$ 4,831
Interest cost on projected benefit obligations	15,575	13,755
Actual return on assets	(29,598)	(18,802)
Net total of other components	9,072	4,068
Net pension expense	$ 955	$ 3,852
Actuarial present value of:		
Vested benefits	$ 189,926	$ 173,301
Non-vested benefits	771	602
Accumulated benefit obligation	190,697	173,903
Effect of projected future salary increases	21,254	21,185
Projected benefit obligation	211,951	195,088
Plan assets at market value	283,145	248,837
Projected benefit obligation less than plan assets	71,194	53,749
Unamortized amount resulting from:		
Unrecognized net gains	(47,702)	(34,494)
Net transition credit	(10,159)	(10,816)
Plan amendments	24,340	23,370
Long-Term Pension Asset (included in other assets)	$ 37,673	$ 31,809
Assumptions:		
Rate of return on plan assets	8.0–8.5%	8.0%
Discount rate	6.5–7.5%	8.0–8.5%
Rate of compensation increases	5.0%	6.0%

The remaining employees are covered by retirement plans which are defined contribution retirement plans covering full-time employees who have met certain requirements as to length of service. Monthly contributions are made by the Company at a rate of 50% to 100%, based on years of service, of the employees' initial contributions. During the year those contributions resulted in a cost to the Company of approximately $1.8 million (1996 – $1.9 million).

Other Post-Retirement Benefits The Company's Canadian and its wholly owned U.S. operation maintain certain health and other similar benefits for qualifying retirees. These plans are not funded. Information regarding the plans' costs, liabilities and actuarial assumptions follow.

Post-retirement benefit cost consists of the following components before income tax:

(in thousands)	97	96
Service cost	$ 367	$ 377
Interest cost	881	911
Amortization of unrecognized net loss	194	102
Total cost	$ 1,442	$ 1,390
Accumulated Post-Retirement Benefit Obligation ("APBO")		
Retirees	$ 5,200	$ 4,150
Fully eligible active plan participants	2,315	1,943
Other active plan participants	7,422	6,495
Total APBO	14,937	12,588
Plan assets at fair value	–	–
Accumulated post retirement benefit obligation in excess of plan assets	14,937	12,588
Unrecognized prior service cost	(2,287)	(2,192)
Unrecognized gain	668	1,725
Accrued Post-Retirement Benefit Liability	$ 13,318	$ 12,121
Assumptions		
Discount rate	6.5–7.5%	8.0%
Trend rate		
Beginning next year	11.0%	13.0%
Ending year 2005	4.0–5.0%	5.0%

Experience gains and losses are amortized over the average future service to expected retirement age on a straight-line basis.

17. SEGMENTED INFORMATION

The Company is a minimill steel producer and a steel scrap processor with operations in the United States, Canada and the European Union (EU).

97 (in thousands)	Recycling	Steel	Corporate	Total
Sales				
United States	$ –	$ 629,497	$ –	$ 629,497
Canada	209,477	378,290	–	587,767
EU	358,730	319,889	–	678,619
	568,207	1,327,676	–	1,895,883
Inter-segment	(290,551)		–	(290,551)
	277,656	1,327,676	–	1,605,332
Export sales of Canadian segment	$ 40,006	$ 174,771	$ –	$ 214,777
Operating Earnings before Depreciation and Amortization				
United States	$ –	$ 50,563	$ –	$ 50,563
Canada	8,780	50,629	–	59,409
EU	22,283	3,139	–	25,422
Corporate	–	–	(7,190)	(7,190)
	$ 31,063	$ 104,331	$ (7,190)	$ 128,204
Depreciation and Amortization				
United States	$ –	$ 34,283	$ –	$ 34,283
Canada	2,201	14,551	–	16,752
EU	7,883	10,992	–	18,875
Corporate	–	–	119	119
	$ 10,084	$ 59,826	$ 119	$ 70,029
Assets				
United States	$ –	$ 627,806	$ –	$ 627,806
Canada	44,718	242,174	–	286,892
EU	120,972	300,993	–	421,965
Corporate	–	–	121,995	121,995
	$ 165,690	$1,170,973	$ 121,995	$1,458,658

96 (in thousands)	Recycling	Steel	Corporate	Total
Sales				
United States	$ –	$ 550,922	$ –	$ 550,922
Canada	173,549	324,395	–	497,944
EU	339,976	324,869	–	664,845
	513,525	1,200,186	–	1,713,711
Inter-segment	(269,207)	–	–	(269,207)
	244,318	1,200,186	–	1,444,504
Export sales of Canadian segment	$ 28,011	$ 142,743	$ –	$ 170,754
Operating Earnings before Depreciation and Amortization				
United States	$ –	$ 575	$ –	$ 575
Canada	7,579	32,834	–	40,413
EU	21,077	17,786	–	38,863
Corporate	–	–	(9,374)	(9,374)
	$ 28,656	$ 51,195	$ (9,374)	$ 70,477
Depreciation and Amortization				
United States	$ –	$ 32,844	$ –	$ 32,844
Canada	1,575	12,831	–	14,406
EU	7,026	10,718	–	17,744
Corporate	–	–	107	107
	$ 8,601	$ 56,393	$ 107	$ 65,101
Assets				
United States	$ –	$ 561,342	$ –	$ 561,342
Canada	36,322	234,369	–	270,691
EU	118,946	285,232	–	404,178
Corporate	–	–	19,861	19,861
	$ 155,268	$ 1,080,943	$ 19,861	$ 1,256,072

18. SUBSEQUENT EVENTS

On January 8, 1998, the Company acquired all of the issued and outstanding shares of New Jersey Steel Corporation for total approximate cash consideration of US$140 million. The acquisition will be accounted for by the purchase method with results of operations of the acquired entity included in the financial statements of the Company from the date of acquisition.

New Jersey Steel Corporation is the largest producer of reinforcing bar in the Northeastern United States and produces a full range of sizes and epoxy coated reinforcing bar. In the fiscal year ended November 30, 1997, New Jersey Steel Corporation had sales of US$189.2 million and net earnings of US$3.3 million.

In connection with this, the Company has increased its long term credit facility to US$160 million.

Quarterly Information (Unaudited)

97 For the years ended December 31, 1997 and 1996	Quarter			
	First	Second	Third	Fourth
Shipments (thousands of tons)	745	816	716	737
(Millions of dollars except per share amounts)				
Sales	380.8	430.0	381.4	413.1
Cash flow	20.8	28.8	25.0	23.2
EBITDA	27.5	36.7	33.2	30.8
Net earnings	3.6	9.4	6.2	9.9
Per share	$ 0.12	$ 0.29	$ 0.17	$ 0.29
Dividends per share	$ 0.10	$ 0.10	$ 0.10	$ 0.10

96	First	Second	Third	Fourth
Shipments (thousands of tons)	733	762	621	687
(Millions of dollars except per share amounts)				
Sales	371.3	397.5	323.0	352.7
Cash flow	1.4	15.3	3.3	23.0
EBITDA	8.2	23.6	8.5	30.2
Net earnings	(7.2)	2.3	(7.4)	5.9
Per share	$ (0.24)	$ 0.07	$ (0.24)	$ 0.20
Dividends per share	$ 0.10	$ 0.10	$ 0.10	$ 0.10

Quarterly Prices and Trading Volumes

97 For the years ended December 31, 1997 and 1996	Quarter			
	First	Second	Third	Fourth
Share Price				
High $	24.65	23.40	26.00	22.50
Low $	21.25	19.05	21.50	17.50
Convertible Debentures				
High $	–	109.50	118.00	109.00
Low $	–	106.50	107.00	99.00
Volume (000s)				
Shares				
Toronto	2,423	5,335	5,206	6,556
Montreal	165	508	217	1,013
Convertible debentures	–	306	26	19

96	First	Second	Third	Fourth
Share Price				
High $	25.75	25.00	22.50	25.30
Low $	22.00	22.00	18.75	19.80
Volume (000s)				
Shares				
Toronto	5,378	4,400	3,092	2,072
Montreal	355	462	2,172	282

The Company's shares are traded on the Toronto and Montreal Stock Exchanges (Symbol CEI). The Company's convertible debentures were issued on April 23, 1997 and are traded on the Toronto and Montreal Stock Exchanges.

Ten-Year Summary

(millions of dollars except where indicated)	97 (1)	96 (1)(2)	95 (2)
Shipments			
Shipments *(thousands of tons)*	3,014	2,803	2,477
Statement of Earnings			
Sales	1,605.3	1,444.5	1,424.7
Earnings before the following:	128.2	70.5	123.0
Depreciation and amortization	70.0	65.1	43.4
Interest expense – net	21.3	21.6	12.9
Gain on sale of long-term investments(3)	–	–	35.8
Pre-tax earnings (loss)	36.9	(16.2)	102.5
Income taxes	5.5	(11.9)	26.4
Non-controlling shareholders' interest	2.3	2.1	3.9
Earnings (loss) from continuing operations(4)	29.1	(6.4)	72.2
Discontinued operations(4)	–	–	–
Extraordinary items(4)	–	–	–
Net earnings (loss)(4)	29.1	(6.4)	72.2
Earnings (loss) per share(4) (in dollars)			
Earnings (loss) from continuing operations	0.87	(0.21)	2.37
Net earnings (loss)	0.87	(0.21)	2.37
Balance Sheet			
Working capital	232.3	155.7	178.8
Property, plant and equipment	757.1	711.7	676.9
Total assets	1,458.7	1,256.1	1,222.5
Long-term debt	241.9	248.4	219.0
Shareholders' equity	772.2	654.7	632.7
– per equity share (in dollars)	25.26	21.05	20.80
Number of equity shares outstanding (in millions)	30.6	30.5	30.4
Changes in Financial Position			
Cash flow from earnings	97.9	43.0	75.0
Capital expenditures	91.8	103.6	130.8
Dividends per share (in dollars)	0.40	0.40	0.40
Financial Ratios			
Return on average shareholders' equity (%)(4)	4.1	(1.0)	11.9
Debt/total capitalization ratio	27:73	28:72	26:74
Share price			
High (in dollars per share)	26.00	25.75	29.50
Low (in dollars per share)	17.50	18.75	21.25

(1) In the fourth quarter of 1997, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants and now accounts for income taxes by the liability method. Previously, the Company used the deferral method to account for income taxes. This change in accounting policy has been applied on a retroactive basis. Accordingly, the 1996 net earnings have been restated to account for the effect of using the liability method. Other prior periods have not been restated. The 1996 loss reported has been increased by $0.1 million and reinvested earnings at January 1, 1996, has been increased by $10.3 million. See Note 2 to the Consolidated Financial Statements.

(2) In the second quarter of 1996, the Company retroactively changed its policies of accounting for pre-operating costs, interest capitalization and post-retirement benefits other than pensions in order to conform its accounting policies, where permitted by Canadian generally accepted accounting principles, to those accepted in both Canada and the United States. The total cumulative effect of post-retirement benefits other than pensions was determined as at January 1, 1993, the effective date of SFAS 106. Prior to this date, financial data for post-retirement benefits other than pensions was not reasonably determinable with respect to specific prior periods.

94(2)	93(2)	92	91	90	89	88
2,427	2,423	2,276	2,160	2,144	2,296	2,271
1,260.4	1,057.2	873.5	846.5	875.0	960.2	970.7
121.1	88.3	54.0	61.9	99.9	131.6	145.9
43.7	40.6	40.4	39.1	33.3	34.3	29.9
5.1	7.0	10.7	19.3	22.3	13.2	17.3
19.6	–	–	–	–	–	–
91.9	40.7	3.0	3.5	44.3	84.1	98.7
23.8	12.7	0.2	(1.3)	11.5	30.5	39.2
4.4	3.1	(0.3)	(0.7)	0.2	8.4	6.8
63.7	24.9	3.2	5.5	32.6	45.1	52.7
–	–	–	–	63.8	–	–
–	–	–	–	–	–	8.7
63.7	24.9	3.2	5.5	96.4	45.1	61.4
2.09	0.82	0.11	0.22	1.34	1.86	2.18
2.09	0.82	0.11	0.22	3.97	1.86	2.54
189.7	105.2	142.1	69.5	91.6	104.9	134.0
600.7	439.0	370.7	389.7	363.7	329.5	313.2
1,164.2	903.7	827.0	772.9	788.8	676.4	680.8
222.8	99.4	91.9	120.0	124.4	102.9	140.6
585.8	501.9	483.0	405.0	408.0	311.6	288.1
19.26	16.62	16.01	16.56	16.78	12.82	11.90
30.4	30.3	30.2	24.5	24.3	24.3	24.2
97.7	73.2	43.6	47.9	71.5	93.8	100.7
176.4	79.2	22.2	25.6	53.9	61.5	43.1
0.34	0.32	0.32	0.48	0.60	0.54	0.46
11.7	5.0	0.7	1.3	10.0	15.1	19.8
28:72	17:83	16:84	22:78	23:77	24:76	31:69
32.00	28.50	19.38	20.75	17.50	19.25	17.13
26.00	17.63	15.50	15.75	14.63	15.75	13.00

(3) In 1995, the after-tax gain on sale of long-term investments amounted to $23.5 million, or $0.77 per share (1994 – $16.1 million, or $0.53 per share).

(4) In 1990, Co-Steel adopted the CICA's new recommendations on accounting for discontinued operations and extraordinary items.The share of net earnings of Chaparral reported in 1985 has been reclassified as discontinued operations.

Directory

BOARD OF DIRECTORS

ROBERT W. KORTHALS[1][3]
Current occupation:
Chairman
Corporate Director
Previously:
President of The Toronto-Dominion Bank (1981 to 1995)
Director of Co-Steel since: 1971

LEW C. HUTCHINSON
Current occupation:
President and Chief Executive Officer, Co-Steel Inc.
Director of Co-Steel since: 1997

RONALD P. FOURNIER
Current occupation:
Vice Chairman and Deputy Chief Executive Officer, Co-Steel Inc.
Director of Co-Steel since: 1975

IAN W. DELANEY[2][3]
Current occupation:
Chairman, Sherritt International Corporation, an international metals and oil and gas company (since 1990)
Previously:
President and Chief Executive Officer, The Horsham Corporation (1987 to 1990); President and Chief Executive Officer, Merrill Lynch Canada (1984 to 1987)
Director of Co-Steel since: 1992

KENNETH W. HARRIGAN[1][3]
Current occupation:
Corporate Director and Consultant to Ford Motor Company of Canada, Limited
Previously:
Chairman of Ford Motor Company of Canada, Limited (1990 to 1992)
Director of Co-Steel since: 1994

JOSEPH J. HEFFERNAN[2][3]
Current occupation:
President and Chief Executive Officer, Rothmans Inc. and Rothmans, Benson & Hedges Inc.
Director of Co-Steel since: 1996

MICHAEL M. KOERNER[2][3]
Current occupation:
President, Canada Overseas Investments Limited (since 1959), and Sylva Investments Limited, investment management companies
Director of Co-Steel since: 1970

LIONEL H. SCHIPPER[2][3]
Current occupation:
President, Schipper Enterprises Inc. (since 1981) and Fallbrook Holdings Limited, private investment firms
Previously:
Chairman of The Financial Post Company; Partner of Goodman & Goodman, Barristers and Solicitors
Director of Co-Steel since: 1970

DR. MICHAEL D. SOPKO[1][3]
Current occupation:
Chairman and Chief Executive Officer, Inco Limited
Director of Co-Steel since: 1997

OFFICERS

LEW C. HUTCHINSON
President and Chief Executive Officer

RONALD P. FOURNIER
Vice Chairman and Deputy Chief Executive Officer

TERRY G. NEWMAN
Senior Vice President, Chief Operating Officer, North America

BETH KIDNIE
Vice-President, Finance, Chief Financial Officer

Co-Steel Lasco

DAVID J. CAMOZZI
Vice-President and General Manager

BERNIE LEWIS
General Manager, Operations

ANDREW BOULANGER
General Manager, Finance and Development

WILLIAM D. GUNTER
Controller

JOHN F. MACLEAN
General Manager, Sales & Distribution

Co-Steel Recycling

DAVID J. CAMOZZI
Vice-President and General Manager

BRETT RICHARDS
General Manager

ANDREW BOULANGER
General Manager, Finance and Development

FRANCIS NG
Controller

Gallatin Steel Company

JOHN E. HOLDITCH
President

TOM J. HOFFMAN
General Manager, Manufacturing

ROBERT A. LEVEY
General Manager, Commercial

EDWARD J. PUISIS
General Manager, Administration

Co-Steel Raritan

GEORGE MISCHENKO
Vice-President, General Manager

BEN R. DANDROW
General Manager, Steel Production

(1) Members of the Audit Committee
(2) Members of the Compensation Committee
(3) Members of the Corporate Governance Committee

Corporate Information

VINCENT C. DIMICELI
Controller

R. STEPHEN GRESHAM
Vice-President, Marketing

BARRY L. MEANS
Vice-President, Rod Production

GEORGE N. PARKER
Vice-President, Employee and Metallurgical Services

Co-Steel Sayreville

FRANK HAGAN
Vice President and General Manager

ANDREW BOULANGER
General Manager, Finance and Development

JOHN F. MACLEAN
General Manager, Sales & Distribution

Co-Steel Sheerness

JOHN W. CLAYTON
Managing Director

PETER A. LEARMOND
Life President

GEORGE BELL
Director, Sales and Marketing

HUGH E. BILLOT
Personnel Director

MARTIN J. SHIRLEY
Director, Finance and Corporate Development

Mayer Parry Recycling Ltd.

ALAN M. CROWE
Managing Director

PETER J. CALLAGHAN
Financial Director and Secretary

JOHN L. COOKSON
Operations Director

J. BRIAN ROBERTS
Director

CO-STEEL INC.

The registered and principal office of the Company is located at:
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40 King Street West
Toronto, Ontario, M5H 3Y2
Telephone (416) 366-4500
Fax (416) 366-4616
Web: www.costeel.com
Co-Steel Inc. is incorporated under the laws of Ontario.

LISTING OF CAPITAL STOCK AND CONVERTIBLE DEBENTURES

The shares and convertible debentures of the Company are listed on The Toronto Stock Exchange and The Montreal Exchange. The Company's Common Shares trade under the stock symbol "CEI".

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the shares of the Company is The CIBC Mellon Trust Company at its offices in Toronto, Montreal, Winnipeg, Calgary, Regina, Vancouver and Halifax.

SHAREHOLDER INFORMATION

Shareholders seeking information or assistance concerning their accounts may contact The CIBC Mellon Trust Company through the Shareholder Inquiry Line. Shareholders in Canada and the United States who live outside Toronto should call 1-800-387-0825; shareholders in Toronto should call (416) 643-5500.

FINANCIAL CALENDAR

Fiscal year end: December 31.
Annual Meeting: April 29, 1998.
Interim Reports mailed: April, July, October
Dividend Dates: March, June, September, December

INVESTOR INFORMATION

Shareholders or other interested parties seeking assistance or information about the Company are invited to contact Beth Kidnie, Vice-President, Finance, Chief Financial Officer, at the principal office.

ANNUAL INFORMATION FORM

A copy of the Co-Steel Inc. Annual Information Form is available from the Secretary of the Company upon request at the principal office.

THE ANNUAL MEETING OF THE SHAREHOLDERS

The Annual Meeting of the Shareholders of Co-Steel Inc. will be held in Conference Room A, 19th Floor, The Toronto Dominion-Bank Tower, Toronto-Dominion Centre, King St. at Bay St., Toronto Canada at 10:00 A.M. on April 29, 1998.

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